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S. Hrg. 102-405

**S. 680, THE TOURISM POLICY
AND EXPORT PROMOTION ACT
OF 1991**

#77-1

HEARING

BEFORE THE

**SUBCOMMITTEE ON FOREIGN COMMERCE AND
TOURISM**

OF THE

**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE**

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

JULY 10, 1991

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S. 680, THE TOURISM POLICY AND EXPORT PROMOTION ACT OF 1991

WEDNESDAY, JULY 10, 1991

**U.S. SENATE,
SUBCOMMITTEE ON FOREIGN COMMERCE
AND TOURISM OF THE COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
Washington, DC.**

The subcommittee met, pursuant to notice, at 2:33 p.m., room SR-253, Russell Senate Office Building, Hon. John D. Rockefeller, chairman of the subcommittee, presiding.

Staff members assigned to this hearing: Ivan A. Schlager, professional staff member; and Gerri Lynn Hall, minority professional staff member.

OPENING STATEMENT OF SENATOR ROCKEFELLER

Senator ROCKEFELLER. I want to apologize to our two distinguished congressmen. We had a cloture vote and it was meant to come at 2 p.m. and it did not come until, I guess, about 2:15, but Congressman Swift says that he understands. He has been through that before, and I am grateful for that.

What I would like to do, gentlemen, rather than to give my statement to begin with, is to call on both of you and then I will follow up with some of my own thoughts. But I do not want to inconvenience you. So Congressman Swift, would you care to go ahead, sir?

STATEMENT OF HON. AL SWIFT, U.S. REPRESENTATIVE FROM WASHINGTON

Mr. SWIFT. Senator Rockefeller, you are very kind. If the half hour that I have waited is deducted from the hours and hours and hours I have made other people wait, I am still in deep debt, so I do understand.

I also want to commend you, Senator, as being, I think the lead spokesman for reinvigorating the tourism effort on the Senate side. I have been very concerned with this in the House and consider you an ally.

In the last Congress we worked to include language in a reauthorization bill to get border facilitation and rural emphasis in the tourism effort, and I believe those are both concerns that you share.

Now that I chair the subcommittee with oversight of tourism activities, I would like to work with all interested parties, including this committee of the Senate, to pass a comprehensive reauthorization bill in this Congress.

Currently, there are those who see the USTTA as an agency lacking a clear mandate. It is a central criticism of the agency, and I think we have an opportunity to try to clarify that mandate, to bring it into focus, to influence what that mandate is, both to reinvigorate the agency as well as to lower some of the legitimate criticism that has been made on that score in the past.

The agency's budget is small, only \$14 million, much less than many small countries spend on their tourism promotion. Congress, I think has to ensure that USTTA utilizes its limited financial resources to the maximum extent possible and as efficiently as possible.

The agency should not, and I underline not, duplicate the tourism industry's advertising efforts, and it should not focus solely on promoting the well-known areas of our country, areas that are already known on a worldwide basis.

What it should be doing is using its expertise to help local, State, and regional areas with underutilized tourism potential to develop that potential effectively and to develop promotional materials and strategies and aid those areas in making foreign visitors aware of what it is that we have to offer in the less well-known parts of our country.

USTTA's foreign offices can then serve as a conduit through which that information about these rural areas can be distributed to foreign tour vendors.

USTTA also should report to Congress on specific plans to assist the largest number of these areas as possible, and I would give you an example from my own district, the Makah Indian Reservation. The Makah Tribe has been very active in developing tourism at its reservation, located in the northwest corner of the Olympic Peninsula.

It is building a marina to serve fishing boats and pleasure craft and tour vessels and when that is completed, the marina will provide a base for many activities including sport fishing, bird, marine, animal watching, and sightseeing off Cape Flattery, which is the most northwesterly point in the lower 48.

The tribe is also trying to expand the Makah Museum which houses one of the most significant discoveries of Native American artifacts, a major archaeological dig in the area called Ozette that is the source of most of the materials that are housed in this unique museum. Since it opened in 1979 it has had over 200,000 visitors, including some from as far away as China and the Soviet Union.

The facility serves as a model for other Native American tribes as they try to preserve their heritage and make outsiders aware of their history and culture.

Groups like the Makah want the outside world to experience their cultures, but they have limited resources and expertise to attract visitors, especially from overseas. USTTA should work closely with such groups and with Federal agencies such as the Bureau of Indian Affairs, the National Park Service, U.S. Forest Service, and others to ensure that foreign travelers become aware of the many recreational opportunities these remote areas provide.

Virtually every State has a great deal to offer tourists beyond the attractions that are well known. For example, in my district alone,

you have the San Juan Islands, the Ross Lake Tours, the North Cascade Highway, the Friday Harbor Whale Museum, the Bellingham Ski-to-Sea Race, the Skagit Tulip Festival, a multitude of outdoor recreational opportunities and I am afraid to say, the Elma Slug Festival.

But my point is that virtually every congressional district in the United States—certainly those of us who come from more rural States—can list as many tourist opportunities in each congressional district as I have listed just in mine.

These sorts of places and activities, which are not always well known outside their immediate area, provide foreign visitors with an intimate glimpse of American culture. Grants given by USTTA should be tied to the creation and implementation of viable tourism development plans. Subsequent grants should be available first to those areas whose initial plans are successful.

Facilitation of a foreigner's entry into the United States is an essential part of the national tourism strategy. As a representative from a border district, I am well aware of the problems foreigners often encounter when they try to visit the United States. The agency should work with Customs and Immigration to make entry as friendly and as smooth as possible.

Tourism is not a panacea for this Nation's economic situation, but the revenue that it brings in can alleviate many of the hardships that our rural areas currently face. The United States is now running a tourism surplus and we would be foolish to fail to take advantage of the economic benefits that tourism offers.

I plan to introduce a reauthorization bill in the near future in the House and to hold hearings after the August recess. Subcommittee staff has been meeting with other congressional staff, USTTA, and tourism industry representatives to try and craft legislation that will achieve three essential goals: first, set forth a clear national tourism policy; second, focus the agency's attention on helping parts of the United States that need promotional assistance; and finally, ensure that the agency uses its limited resources efficiently.

By doing this, I believe we can dispel the doubts about USTTA's usefulness and give it a whole new focus that will of benefit to this country.

I would be happy to answer any questions.

[The prepared statement of Mr. Swift follows:]

PREPARED STATEMENT OF REPRESENTATIVE AL SWIFT

Good morning. Thank you for this opportunity to testify before the Subcommittee on the important issues of national tourism policy and reauthorization of the U.S. Travel and Tourism Administration. As Chairman of the House Subcommittee with jurisdiction over tourism, I look forward to working with you to develop an effective tourism policy and to ensure that the USTTA functions in the most efficient manner possible.

In the last Congress, I was a cosponsor of legislation to reauthorize the USTTA, and worked to include language on border facilitation and rural tourism development. I am optimistic that we will be able to pass a reauthorization bill during this Congress.

Currently, some see the USTTA as an agency lacking a clear-cut mandate. In a reauthorization bill, we in Congress must ensure that USTTA utilizes its limited financial resources to the maximum extent possible. Currently the U.S. provides only about \$14 million in funds for the USTTA, considerably less than many smaller countries spend on international tourism efforts. I hope that, by working together to

resolve any doubts about the agency's usefulness and effectiveness and make the USTTA a strong device for encouraging foreign travelers to visit the U.S., we can obtain greater authorizations for the agency in the future.

The USTTA should neither duplicate the tourism industry's advertising efforts nor focus solely on the promotion of well known areas. Rather, the USTTA should use its expertise to help local, State and regional areas with underutilized tourism potential develop effective promotional materials and strategies, and aid these areas in making foreign visitors aware of what they have to offer.

In my district, the Makah Indian Tribe has been active in developing tourism at its reservation, located on the northwest corner of the Olympic Peninsula. The tribe is building a large marina to serve tribal and non-tribal fishing boats, as well as pleasure craft and tour vessels. During the winter, the marina will provide safe moorage for these craft. In the summer months, the facility will provide a base for a variety of activities including sport fishing; bird and marine animal watching; and sight-seeing off Cape Flattery, the most north-westerly point in the lower 48 states.

Further, the tribe has been working to expand the Makah Museum, which houses the Ozette Archaeological Collection, one of the most significant discoveries of Native American artifacts to date. Since the Museum opened in 1979, it has attracted over 200,000 visitors, including some from as far away as China and the Soviet Union.

In addition to serving as a forum for the display of a centuries-old culture, this museum and the associated restoration and preservation facilities have provided an example for other Native American tribes to use as they strive to preserve their heritage and make outsiders aware of their history and culture. Increased revenues from visitors will allow the tribe to expand the museum, which currently displays only 1% of the artifacts recovered, and will provide much-needed revenue for the local economy. Groups like the Makah Tribe want the outside world to experience their cultures, but often don't know how to attract visitors, especially from other countries. The USTTA should work closely with such groups, as well as with Federal agencies such as the Bureau of Indian Affairs and the National Park Service, to ensure that foreign travelers become aware of the many opportunities these remote areas have to offer.

Every State has a great deal to offer tourists beyond the well-known attractions. For example, in my district alone we have San Juan Island, the Ross Lake Tours, the North Cascades Highway, the Friday Harbor whale Museum, the Bellingham Ski-to-Sea Race, the Skagit Tulip Festival, a multitude of outdoor recreational opportunities, and the Elma Slug Festival. These sorts of places and activities, which are not always well-known outside their immediate area, provide foreign visitors with an intimate glimpse of American culture.

Whereas cities like New York and San Francisco have the wherewithal to effectively promote themselves to foreign visitors, rural areas often lack both the financial and technical resources necessary to increase tourism. In addition to assisting these areas in developing promotional materials, the USTTA, through its foreign offices, can serve as a conduit through which these materials pass to foreign tour vendors. This network of foreign offices scattered about the globe is an important part of USTTA's operation, and must be utilized in the most efficient manner possible.

Grant monies provided by the USTTA should be tied to the creation and implementation of viable tourism development plans. Subsequent grants should be available first to those areas whose initial plans are successful.

The need to facilitate entry of foreign travelers is another essential component of a successful national tourism policy. As the representative of a border district, I am well aware of the headaches many foreigners suffer when forced to wait in unreasonably long lines at border crossings. USTTA, Immigration, and Customs must work together to provide our foreign guests with a friendly, hassle-free welcome.

By requiring the USTTA to develop specific plans to assist the largest number of local and regional groups possible and to report to Congress on the development and implementation of these plans, we would be able to document how, when USTTA uses its resources properly, it is a critical part of our nation's tourism strategy. Proper documentation of USTTA's effectiveness in promoting the U.S. as a desirable tourist destination is another tool to dispel doubts about the agency and increase its Congressional support.

Tourism is not a panacea for our nation's economic woes, but the revenue it brings can alleviate some of the hardships many of our rural communities now face. As other witnesses will state, the United States is currently running a tourism surplus. Given the state of our economy, we would be foolish to not take advantage of the economic benefits that increased inbound tourism offers.

The great variety of historical, cultural, and scenic areas that the U.S. has to offer present us with a unique opportunity to benefit both small communities and the Na-

tion as a whole. An effective, focussed USTTA, in conjunction with active support from Congress and the travel and tourism industry, can assist communities eager to show off their cultural and historical heritage to promote themselves to foreign travelers, providing benefits to all involved.

I plan to introduce a USTTA reauthorization bill in the near future, and to hold hearings after the August recess. Subcommittee staff has been meeting with other Congressional staff, USTTA, and representatives of the travel and tourism industry in an effort to craft legislation that will set forth a clear national tourism policy and help the USTTA utilize its limited resources to the fullest. I am hopeful that together we can address the concerns of the agency's critics and make the USTTA- an effective promoter of all areas of the U.S. to foreign travelers. Again, thank you for inviting me to testify before this Subcommittee on these important issues, and I look forward to working with you as we move through the reauthorization process.

Senator ROCKEFELLER. Thank you very much, Congressman Swift.

I was talking with a Congressman before, just a few moments ago and pointed out that my wife, Sharon, who is a great advocate of public television, has made the Swift name very popular in our household for many years. So I am glad that we have a chance to work on this front also.

Congressman Roth, we certainly welcome you, sir, and I apologize also to you for keeping you waiting.

STATEMENT OF HON. TOBY ROTH, U.S. REPRESENTATIVE FROM WISCONSIN

Mr. ROTH. Thank you very much, Senator, and I appreciate your graciousness and your kindness in allowing us to testify before your committee, and Senator, members of your committee, I would like to associate myself with the kind of remarks that Congressman and my colleague, Mr. Swift, made about you personally, Senator Rockefeller.

We have worked together in tourism and we need your help and we are just delighted that you are working in this area.

Mr. Chairman, I am pleased to have this opportunity to testify in support of S. 680, and my companion bill, H.R. 418, the Tourism Policy and Export Promotion Act of 1991, which I am working very hard in the House to make sure that we can get it passed this year.

These bills will have an initial effect of reauthorizing the United States Travel and Tourism Administration and strengthen its ability to promote the United States as a travel destination. And it would direct the USTTA to put greater emphasis on promoting travel and tourism in rural areas such as my district and in my State of Wisconsin.

You know, tourism has such tremendous advantages. For example, we talk about student loans, but there is nothing that gives young people in our universities a chance to work their way through school, for example, as does tourism, especially in my home State of Wisconsin. And when tourism is strong, our colleges benefit from this the most.

And this legislation established the national goal to increase U.S. export earnings from travel and tourism services, targeting the countries which have the greatest potential for expanded revenues like Canada, Mexico, Australia, and South Korea, while maintaining the number of travelers from the four major U.S. travel markets of Japan, United Kingdom, Germany, and France.

And this legislation is consistent with the President's fiscal year 1992 budget request. As you know, travel and tourism are becoming increasingly important to our Nation's economic health, as my colleague, Mr. Swift, pointed out.

In 1990, travel and tourism dollars spent within the United States amounted to more than \$327 billion, that is a lot of money, especially in a time when we are looking for every dollar we can find, or nearly 7 percent of our gross national product, up from \$279 billion in 1987.

And likewise, this industry brought nearly 40 million international visitors to the United States who spent nearly \$53 billion in 1990, resulting in a trade surplus, a milestone first attained in 1989.

I do not believe, Senator, Mr. Chairman, and members of this committee, that the American people realize what tourism does, the amount of money it brings into our country.

We have a great story to tell about tourism and many times we are not telling it, and I think this legislation is so important because it also gives us that added vehicle to tell the story of what tourism does.

And we have just begun to promote U.S. tourism as an international tourist destination. When this legislation becomes law, the United States Travel and Tourism Administration can more aggressively market the United States as an international tourist destination and monitor the effects of their promotion efforts.

Recent USTTA studies have shown that international travelers return to the United States for a second and even third visits, so once we get them here, they will come back. They have seen the big cities. They shook Mickey Mouse's hand at Disneyland, now they are ready to discover the heartland and take the road less traveled, if you will, but they need a well-marked road map, and the Tourism Policy and Export Promotion Act of 1991 is the first step in congressional cartography to help tourists find their way to America's hinterland.

In my home State of Wisconsin, for example, travel and tourism was the largest employer in 1989, the largest employer, and we are the dairy State, the largest employer. Visitors spent \$5.4 billion in our State; \$156 million of this was by foreign visitors. Visits left 225 million dollars' worth of State and local taxes—taxes Wisconsinites did not now have to pay.

This is true in South Dakota. It is true in West Virginia, true in Nevada and all the other 47 States as well.

When this legislation becomes law, the number of foreign visitors will multiply like rabbits, generating even more tax dollars and a larger trade surplus, helping to offset the immense trade deficit.

But we need to act now. The U.S. share of international tourism receipts grew by a minuscule 1.2 percent from 1989 to 1990. If we establish a national tourism goal and give USTTA the tools to identify and remove barriers to entry to the United States and people do have problems coming into this country, we can expect continued and long growth in this sector of the economy.

You would be surprised how many problems visitors have with visas. I think this is another area that we have to look at, if we are going to attract international travelers to come to the United

States. When I was at Dulles, I witnessed an example of visitors having problems gaining entry to the United States. A woman came in, I think, from India and the Customs official there was questioning her for about 15 minutes about what she is going to do here and all of these things. Well, that should all be taken care of at the time she gets the visa.

Once the person has a visa, they should not be hassled at the airport, that is my opinion. And I think that is another area that we have to take a look at and make improvements in.

In fact, visitors from overseas spend more than seven times as much as their domestic counterparts. The war is over, people have the time and the desire to travel. And let us show them the many places they can go to discover America, not unlike Christopher Columbus did nearly 500 years ago.

When we compare the commitment of the United States to promoting tourism with the commitment of other nations, America comes up short, as my colleague Mr. Swift pointed out in his testimony. The United States ranks 56th in per capita spending on tourism, 56th, behind countries like Zimbabwe and Grenada.

I am convinced that an investment in tourism will yield great returns for our country, and in fact, it has. We need to do more. In 1990 the tax revenue generated from travel and tourism totaled nearly \$44 billion for Federal, State, and local taxes combined, \$44 billion. From the facts presented, the economic benefits and importance of travel and tourism to our Nation are clear.

In conclusion, Mr. Chairman, and members of the committee, S. 680 is good legislation and good policy. It will help our entire national economy, but it is especially important for rural areas like our State of Wisconsin and may I say, West Virginia, Washington, South Dakota, Nevada, and many others.

And I hope that we can pass this legislation. This hearing today is important because it helps us build momentum not only in the Senate, but also in the House, to pass this legislation this year.

And I thank you and the committee very much for allowing me to testify on this important legislation.

[The prepared statement of Mr. Roth follows:]

PREPARED STATEMENT OF REPRESENTATIVE TOBY ROTH

Mr. Chairman, I am very pleased to have this opportunity to testify in strong support of S. 680, and my companion bill H.R. 418, the Tourism Policy and Export Production Act of 1991. These bills, which are nearly identical, would reauthorize the United States Travel and Tourism Administration (USTTA) and strengthen its ability to promote the United States as a travel destination. And it would direct the USTTA to put greater emphasis on promoting travel and tourism in rural areas, such as my district and state.

This legislation establishes a national goal to increase US export earnings from travel and tourism services, targeting the countries with the greatest potential for expanded revenues, (Canada, Mexico, Australia, and South Korea.) while maintaining the number of travelers from the four major markets of Japan, United Kingdom, Germany, and France. This legislation is consistent with the President's FY 1992 budget request.

As you know, travel and tourism are becoming increasingly important to our nation's economic health. In 1990, travel and tourism dollars spent within the U.S. amounted to more than \$327 billion dollars or nearly seven percent of our gross national product, up from \$279 billion in 1987.

Likewise, this industry brought nearly forty million international visitors to the United States who spent nearly \$53 billion dollars in 1990 resulting in a trade surplus, a milestone first attained in 1989.

Yes, I said a trade surplus. And we have only just begun to promote the United States as an international tourist destination.

When this legislation becomes law, the United States Travel and Tourism Administration can more aggressively market the United States as an international tourist destination and monitor the effects of their promotion efforts.

Recent (USTTA) studies have shown that international travelers return to the United States for second and even third visits. They have seen the big cities. They shook Mickey Mouse's hand at Disneyland, now they are ready to discover the heartland and take the road less traveled, if you will.

But they need a well-marked road map. And the "Tourism Policy and Export Promotion Act of 1991" is the first step in Congressional cartography to help tourists find their way to America's hinterland.

In my home state of Wisconsin, for example, travel and tourism was the largest employer in 1989. Visitors spent over \$5.4 billion dollars in the state, \$156 million of this by foreign visitors. Visitors left \$225 million dollars worth of state and local taxes—taxes Wisconsinites did not have to pay.

When this legislation becomes law, the number of foreign visitors will multiply like rabbits generating even more tax dollars and a larger trade surplus, helping to offset the immense trade deficit.

But we need to act now. The U.S. share of international tourism receipts grew by a minuscule 1.2 percent from 1989 to 1990. If we establish a national tourism goal and give USTTA the tools to identify and remove barriers to entry, we can expect continued and larger growth in this sector of the economy.

In fact, visitors from overseas spend more than seven times as much as their domestic counterparts. The war is over, people have the time and the desire to travel. Let's show them the many places they can go to Discover America, not unlike Christopher Columbus did nearly 500 years ago.

When we compare the commitment of the United States to promoting tourism with the commitment of other nations, America comes up short.

The U.S. ranks 56th in per capita spending on tourism trade development, behind countries such as Zimbabwe and Grenada.

I am convinced that an investment in tourism will yield great returns for our country. In fact, it has. In 1990, the tax revenue generated from travel and tourism totaled nearly \$44 billion for federal, state and local taxes combined.

From the facts presented, the economic benefits and importance of travel and tourism to our nation are clear. In conclusion, Mr. Chairman, S. 680 is good legislation and good policy. It will help the whole national economy, but it is especially important to rural areas like my District in Wisconsin. It is my hope that today's hearing will build momentum to pass this valuable legislation.

Senator ROCKEFELLER. Thank you very much.

I just want to say that I could be sitting there, you could be sitting here. We are talking the same language. I want and I know that my colleagues share my view on this—so much to get a reauthorization bill passed.

We came so close last year, and in some of the areas in the bill this year we are looking at addressing some modifications that may make Chairman Dingell more amenable, and that is very much on our mind, because he is a very powerful chairman and has very strong feelings, and we are trying to accommodate those as best we can, but I would really like to feel that all of us are doing this together and that we can really work together to get a reauthorization bill.

It is embarrassing not to have one since 1981. For those who observe the industry, and those who do are very passionate about it, it is hard to explain why it is that we cannot do that, and I really think we can this year, and I would hope that both of you would feel that way, and I am sure you would.

Mr. SWIFT. Senator, not only do I feel that way, I am going to work very, very hard to address the legitimate concerns that Congressman Dingell has, growing out of some history, and I think by focusing the agency in the ways all three of us are talking about, and I presume your colleagues as well, I think is going to go a long

way toward responding to those concerns that the chairman of the Energy and Commerce Committee in the House has.

Senator ROCKEFELLER. Good. Do either of my colleagues have any questions—or, I am sorry, Chairman Burns came in.

Senator PRESSLER. Yes, Mr. Chairman. I would yield to Senator Burns.

Senator BURNS. No, go ahead.

Senator PRESSLER. I am in the wrong stanchion.

Senator BURNS. Go ahead, and then I have got an opening statement.

OPENING STATEMENT OF SENATOR PRESSLER

Senator PRESSLER. OK, great. I will be very brief. I am in the wrong stanchion, as we say in our part of the country, because you are the ranking member of this subcommittee.

I am not even a member of this subcommittee any more, but I used to be chairman of it and I join in the comments. I thank my colleagues from the House, and I have a statement also, but I will save the committee hearing it. They can read it.

But I thank you very much, and I look forward to working with you on legislation. I am a cosponsor of the USTTA reauthorization and also the rural tourism development foundation bill of my colleagues. I support what has been said here.

Also I think we need to make a bigger international effort. We need to use our embassies to get more tourists to come to the United States. We could do that without additional spending by using the communications system that we have and having information on points of destination more readily available to the public in many countries, having a Foreign Service officer trained in tourism as we do in the Foreign Agricultural Service.

There are a lot of things we could do without spending any more money, with the apparatus and the communications system we already have internationally. That is something I have been an advocate of, and we have made some progress in getting the State Department more attuned to the need to bring in more revenue through the use of our embassies and putting information out.

Thank you.

Senator ROCKEFELLER. What I was hoping was, if there were any questions for the Congressman, then I will have an opening statement and then others on the committee can do that also. Senator Bryan, do you have any questions or observations?

Senator BRYAN. No, I do not. I am just delighted to have their missionary zeal on behalf of our cause, and we look forward to working together as Chairman Rockefeller has indicated.

Thank you very much.

Senator ROCKEFELLER. Senator Burns.

Senator BURNS. I have no questions. I do not know what I would ask these learned folks that would be of any benefit to them or us either, but I want to associate with Senator Bryan that we sure appreciate your support on this thing. It is going to take a lot of work on the other side in the people's House, and we appreciate your efforts and your dedication to this. We feel like it is very important over here.

Mr. ROTH. Senator Burns, I especially appreciate you recognizing it is coming from the people's House.
 Senator BURNS. Yes, sir. Yes, sir.

OPENING STATEMENT OF SENATOR ROCKEFELLER

Senator ROCKEFELLER. Thank you both very, very much, and again I apologize for keeping you waiting.

I will make a statement at this point, and then Senator Bryan, Senator Burns might want to, and then we will proceed to our next witness, who is the Under Secretary.

We really for most of this past decade our national tourism policy has been, at least in my judgment, allowed to drift along while our friends in Europe and in Asia engage in an all-out effort to capture the American tourist dollars. It was really only a few years ago that the tourist industry, like most other major industries in this Nation, ran a balance-of-payment deficit.

For the past 2 years, the travel and tourism industry has been one of the few bright spots in an otherwise very bleak trade picture. In 1989, thanks to some hard work and thanks also to a cheaper dollar, we have to recognize that. The industry posted its first surplus of over \$1 billion, and now that has increased to \$4.7 billion in 1990.

Despite, however, these impressive gains, the industry now stands, I think all of us would agree, at a genuine crossroads. Since January, the travel and tourism industry has been fettered by the war and by the recession, which has threatened to wipe out the tremendous strides made in the past 2 years, so if we are going to ensure the vitality of the travel and tourism industry, then all of us in both the public sector and the private sector must joint together without regard for who is in what business to vigorously promote the United States of America.

It is imperative in this competitive struggle for the international tourist dollar that we support the USTTA by providing it with a 3-year authorization, but I also recognize that reforms are necessary if USTTA is going to be ready to meet the challenges that are ahead of us, and part of that lies within the reauthorization process itself.

Last year, the Senate unanimously passed the Tourism Export Promotion Act. It was a joint effort of the industry, the administration, and the Senate, aimed at providing USTTA with the stability to meet the competition from our very aggressive counterparts in the international marketplace.

Unfortunately, despite the overwhelming support that the bill received in the Senate, we were unable to reconcile our differences with the House Energy and Commerce Committee Chairman John Dingell. In my discussions with Chairman Dingell last year, I recognized the need to reform some of the functions of USTTA and with that in mind the industry, together with the Congress, has been diligently working on the goal of drafting some new proposals in order, in our judgment, to strengthen USTTA and address some of the concerns raised by Chairman Dingell.

One can say well, why can one man make so much difference? Well, Chairman Dingell makes that much difference and we have

to recognize that and deal with that, and we want to get this thing reauthorized, so that we have to be realistic about what we do.

I am specifically interested in fleshing out proposals that relate to important issues such as visitor facilitation and attacking barriers that keep U.S. companies from operating abroad. These two areas are important components of our national tourism policy.

In the facilitation area, that is what we call it, first impressions really are everything. They count a lot with me every time I go overseas, or every time I am wandering around in this country. What happens at airports—are they convenient? Are people friendly? These questions are very important, and you remember them. It is imperative that the first impressions of foreign visitors to the United States are pleasant and that they have a decent and effective trip through Customs and Immigration.

Equally as important, we have to break down the barriers that either prevent or make it difficult for American companies to compete on equal footing in foreign markets. No difference with our overall trade policy.

We have a full witness list with our new Under Secretary of USTTA and he is somebody I am very, very high on, and we have a very distinguished panel from the private sector, and of course I particularly want to welcome John Brown, who is my friend from the State of West Virginia Division of Tourism and Parks.

So, our testimony is important. I consider this a very important hearing. It is the beginning of our effort to get a reauthorization and to put in place a national tourism policy which is updated according to the realities of the 1990's. It has to be done, and I think we have a good shot of getting it done this year. Senator Bryan.

OPENING STATEMENT OF SENATOR BRYAN

Senator BRYAN. Thank you very much, Mr. Chairman. Let me first of all compliment you for your leadership in this area, to associate myself with the very strong comments that you have made in your opening statement. I, like you and I think every member of this subcommittee, was profoundly disappointed when we did not get the reauthorization through last year. Hope springs eternal, and I am hopeful that we are successful, and I know with your skill and your willingness to try to resolve the differences that are outstanding with the other body, perhaps we can do so.

I must say, if one was looking at this issue as matters of fact are tried before a courtroom, the evidence is overwhelming, beyond a reasonable doubt that investment in tourist dollars makes sense in terms of the return. We spend, as the testimony has revealed, a pitiful sum—\$14 million. I believe one of our distinguished colleagues from the other body indicated we rank 56th among the nations in the world in terms of what we spend.

That is a tragedy—and the return and the potential are so enormous. The numbers last year, \$53 billion spent in this country, 40 million international travelers. With an economy that is increasingly global in terms of its focus, with the potential just now beginning to be realized and tapped, we can do so very, very much more.

You have concentrated, as you did yesterday, Mr. Chairman, and I compliment you, with our advisory group, in terms of some of the things we can do working with the private sector for visitor facili-

ties to make that international travel experience to the United States a more positive one.

I just think that we can do a great deal, and I want to compliment you once again on your leadership and indicate that this Member wants to be fully supportive of your efforts and to work with you and your other colleagues to at least get that message—I do not know where we have failed, but the evidence, as I said, is so persuasive that we get a substantial return for every dollar that we have invested.

Perhaps more missionary efforts on our behalf will help to carry that message, but I want to be a part of that effort, Mr. Chairman, and I thank you and ask unanimous consent that my full statement be made a part of the record of this hearing.

[The prepared statement of Senator Bryan follows:]

PREPARED STATEMENT OF SENATOR BRYAN

Mr. Chairman, I commend you for holding this hearing on S. 680—The Tourism Policy and Export Promotion Act of 1991—to review the mission of the United States Travel and Tourism Administration (USTTA) and the importance of the tourism industry to our nation.

Mr. Chairman, I applaud your introduction of legislation to enhance our international tourism efforts. I am pleased to be an original cosponsor of the Tourism Policy and Export Promotion Act, and look forward to working with you to pass this needed legislation quickly. It is important to note that efforts to promote tourism are bipartisan. This fact is reflected in your legislation which has been cosponsored by all members of the Commerce Committee, Republicans and Democrats, including the Chairman and Ranking members of both the full committee and this tourism subcommittee.

In the 101st Congress, the Senate unanimously passed the USTTA reauthorization bill. Unfortunately, the bill was never reported out of the Energy and Commerce Committee in the House of Representatives. This year we must work aggressively with the House of Representatives to iron out differences and pass the first reauthorization bill for USTTA in 10 years. Much in the tourism industry has changed over the past 10 years and the mission of USTTA must be carefully examined and redesigned.

We in this Subcommittee recognize that the tourism industry is one of the largest employers in this country, and one of the largest export earners. But we also know that we could and should be doing much more to promote the industry internationally and increase our export earnings.

The purpose of S. 680 is ultimately to determine the best way we can promote the United States as an international travel destination. As we know, in 1990, foreign visitors spent \$52.8 billion in the United States, compared with \$48.1 billion spent by Americans traveling outside the country. This gave the United States a surplus of \$4.7 billion. With our enormous trade deficit, the United States government should be seeking out all creative and innovative avenues for attracting foreign visitors to America.

I am anxious to hear from the new Under Secretary of Commerce for Travel and Tourism, John Keller, about his concept of the mission of USTTA and how the Senate, the Commerce Department, and private industry can develop partnerships to encourage travel to the United States. I also look forward to hearing from the representatives of the travel and tourism industry here today about their recommendations for working together to improve travel to the United States.

In addition, I look forward to hearing from the General Accounting Office on ways to make entry into our country more "tourist-friendly." One of the problems visitors face is the lack of information for foreigners in their own language both in their country and when visiting the U.S., and the difficulties and long delays tourists face in going through customs and immigration. I believe it is important for us to strive to break down these barriers to travel.

Mr. Chairman, I look forward to exploring these and other issues of importance to the tourism today.

Senator ROCKEFELLER. It will be done, and I want to say to you, Senator Bryan, and to you, Senator Burns, before I turn to you, that I frankly am very grateful to both of you.

We did have a meeting with the advisory group yesterday and you were both there, and you were both extremely important and helpful not only to this chairman but to the cause of tourism, and I am very grateful for that, because I think that this has been a subcommittee which has had its good times and bad times, but I have a feeling that we are going into aggressive good times. Senator Burns.

OPENING STATEMENT OF SENATOR BURNS

Senator BURNS. Thank you, Mr. Chairman, and thank you for holding this hearing today, and I fully agree with that.

You know, it is very interesting, as you look around the country. In my own State of Montana, travel inquiries this year are up over 45 percent. Last year, our total nonresident expenditures was up some 16 percent, and there is a reason for that. We are a darn good buy, so anybody who wants to take a little vacation, why you are certainly welcome to come to Montana. Wheat prices are not that good, and we need a little pump in the economy up there.

I guess when you are single-focused you always look at issues that are next to you that you can put a finger on and you can measure. Actually, I started out in the airline industry a long time ago coming out of the Marine Corps and was looking for work, and so I had a sort of practical hands-on experience working for the airline industry in Kansas City.

After I went to Montana and got into business for myself I think I led or guided some six or seven or eight tours around the world, farm tours that we put together ourselves, and we were the guys that sold it. We fashioned the trip and you took the people, and all of the trips were great successes.

So, we understand what this travel business is all about and how important it is to the different neighborhoods. I wish some way—and we are going to get that started in Montana in some way—we could use some of the ideas that are used internationally, particularly in areas where we travel with a great deal of enjoyment, which are Australia and New Zealand, on how they handle their tourists and their groups that come through those two countries.

In the recent crisis in the gulf, this industry witnessed mixed blessings. On one hand, the loss of revenue to the industry associated with tourism and travel were staggering, but on the other hand, we witnessed good old American bootstrap know-how. The American and international communities observed private industry and the public sector in this country join forces and communicate the message that travel was safe not only in this country but abroad, too.

I was pleased to lead the charge on the Senate side, along with my colleagues from the House, to join forces with the Go-U.S.A. Coalition to send that message. People with courage and vision like Bill Marriott and others saved this industry in a time of near disaster.

My point is that this industry is strong and independent. Its stewards and participants are doers. They did not wait for the Fed-

eral Government to come along to bail them out. They did something about it before they ended up in a lot of trouble, and fortunately it worked for the good of this country.

So, Mr. Chairman, we have before us a policy bill that will certainly serve a thriving industry. We have all spouted the glowing figures on numerous occasions during the last 2 years, and I will not bore you with any of those numbers today, but I caution all of you that we must not bask in all the glory and forget the responsibility to manage.

Industry and Congress must take the responsibility for meeting the demands created by growth in this business. Much of this responsibility can and should be managed by the private sector, but we need the USTTA. There is no doubt about that, and here we are struggling for just a few dollars, knowing the returns.

But I guess if I were serving in Congress and I served just a few constituents my interest would be narrowed to that and we would never see dollars spent in our neighborhoods by nonresident travelers. Well, I for one understand the importance of this business.

I applaud Senator Rockefeller. He just is committed to this issue, and I think we have worked together on this issue ever since I have been in the Congress and ever since I have been on this committee. I do not know of a committee that I serve on that I enjoy more than this one, and the people and the industries that we touch. So it is a big job.

I would ask unanimous consent that my full statement be entered into the record. It is nice to see Mr. Keller here, and I will look forward to his comments today.

Thank you, Mr. Chairman.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF SENATOR BURNS

Mr. Chairman, I want to commend you for holding this hearing today to once again resolve the long overdue updating of the Tourism Policy Act.

It is very interesting to have observed the increased awareness of tourism by the business community and the elected officials during the last year. Travel inquiries in my home state of Montana are up 45 percent in April.

Montana's most recent 1990 travel figures show that non-resident expenditures are up 16 percent for a total of \$760 million. We are on the upswing in Montana and are very happy about that.

During the recent crisis in the Gulf this industry witnessed mixed blessings. On one hand the loss of revenue to the industry associated with tourism was staggering.

But on the other hand, we witnessed good old American bootstrap know-how. The American and International communities observed private industry and the public sector in this country join forces and communicate the message that travel was safe in the United States.

I was pleased to lead the charge on the Senate side along with my colleagues from the House to join forces with the GO USA Coalition to send that message. People with courage and vision like Bill Marriott and others saved this industry in a time of near disaster.

My point is that this industry is strong and independent. Its stewards and participants are doers. They didn't wait for the federal government to come along and bail them out. They did something about it before they ended up in trouble. And fortunately it worked.

Mr. Chairman, we have before us a policy bill for this currently thriving industry. We have all spouted the glowing figures on numerous occasions during the last two years. I won't bore any of you with any of these numbers today. But I will caution all of you that we must not bask in all this glory and forget our responsibility to manage.

Industry and Congress must take the responsibility for meeting the demands created by growth in this business. Much of this responsibility can and should be managed by the private sector.

The Congress should provide leadership that is practical and supportive. There is no benefit in the federal government stepping in to provide legislation for the sake of passing legislation if it does not provide a practical, sensible support framework.

I understand that there is a fair amount of new input to this policy bill before us today. It is my sincere intent to make sure that this bill is designed with a clear vision of the responsibility we all have to support and manage the future of this industry.

Mr. John Keller, our new Under Secretary of Travel and Tourism has recently stated that we must all be aware that this feast we're enjoying of export surplus is not guaranteed. He, I'm sure, is not trying to throw a wet blanket on anyone. He is being realistic. Business is cyclical. It is because of this knowledge we must not miss this opportunity to effect future problems before they happen. That is our job.

So, not to belabor this any longer I will say that I do look forward to working with my colleagues and our friends in the private sector to produce a viable and forward looking policy bill. We have been fortunate to have received some very valuable insight in the last few days as well as the last several years, from members of the Travel and Tourism Industry Advisory Committee concerning the tourism industries needs and concerns.

These private sector leaders spend their own money to come to Washington to provide us with this valuable insight. I appreciate their efforts as I know you do Mr. Chairman. They have recently provided us with valuable input that should aid us in passing a quality working bill.

This bill address the issues of rural tourism promotion, facilitation¹ the fate of USTTA and other important factors. These are some of the needs this industry relies on us to provide regulation for. I believe we can do that and need to provide the leadership the private sector looks to us to provide. So with that I say let's roll up our sleeves and get on with this hearing. I look forward to hearing from our witnesses today.

Thank you Mr. Chairman.

Senator ROCKEFELLER. It will be in the record, Senator Burns, and thank you.

I would like to have John Keller come forward now. And I just want to say that I have not had an extensive amount of time to talk with Under Secretary Keller, but I have a very high regard for him. He is aggressive. As he told me, he shoots straight. And he is smart. And I think he is going to do a very, very good job.

We have had a series of excellent USTTA people in the Reagan years, and the Bush years. And that is very important. And when we talked yesterday, we agreed that we are going to deal with each other very straight up, and do our best for this industry. And I totally accept that and believe that, both myself, and in you.

So, it is a relationship which I value, John, and it is one which I know is going to be good. So, we welcome your testimony.

STATEMENT OF HON. JOHN G. KELLER, UNDER SECRETARY FOR TRAVEL AND TOURISM, DEPARTMENT OF COMMERCE

Mr. KELLER. Thank you.

Mr. Chairman, I will be summarizing my written statement, so I do ask that my full statement—

Senator ROCKEFELLER. Yes, I read your entire—it is very long. It is also very excellent, so let me compliment you on it. It is extremely thorough. And you raise some questions about the bill at the end, which I thoroughly understand. But it is a very thoughtful, excellent testimony. So, I will put it in the record.

Mr. KELLER. Thank you.

And I will summarize, and believe me, this is summary, even if it does seem a little long in itself.

Mr. Chairman, and members of the subcommittee, I appreciate this opportunity to appear before you. Before I summarize my written statement, I would like to say that I am heartened that the legislation before the subcommittee, S. 680, would authorize appropriations for the activities of the U.S. Travel and Tourism Administration, for the first time since fiscal year 1982.

While the Congress has continued to appropriate funds for our activities, despite the lack of authorization of appropriations, an authorization would help us plan for the future. All here know that the United States offers the finest business and leisure travel destinations in the world. At present, America is the world's leader in international tourism receipts, and the second in international arrivals.

I am proud to announce—and though Congressman Roth did also mention these new statistics, which are a revision of ones that we had just previously released about last year—that in 1990, 39 million international visitors came to our country and spent \$53 billion. All told, our travel trade balance of payments for 1990 was in surplus by more than \$5 billion.

These figures show that America's tourism products and services are of high quality, and that the U.S. Travel and Tourism Administration—excuse me—travel and tourism industry is tapping the international market.

The world tourism picture has greatly changed since our last authorization in 1982. Today the rate of world tourism is growing steeply. For this decade, experts estimate the world tourism will grow by 5 to 10 percent annually. Much of this growth will come from increasing levels of disposable income and leisure time, throughout large portions of Eastern Europe, Latin America, and East Asia.

The U.S. travel and tourism industry has a golden opportunity through enhanced travel and tourism trade development to tap and capture a far greater share of the world market than it now has.

There are three very important points I would like to make regarding what is, and should remain, USTTA's role in America's tourism picture. First, we are not just in the business of international tourism marketing. We are in the business of tourism development. Second, we direct and must continue to direct our activities toward doing those things that the industry cannot do by itself, and is acting as a catalyst.

And Mr. Chairman, I just might go off of my prepared statement, because I was, the other day, coming back from lunch and noticed up on the Commerce Department inscribed, up in the building—not that I wander around with my head up in the air but I did see that there were many statements written up there—and I wrote one down that I thought was very appropriate, not only to Commerce, not only to USTTA, but Government in general, which applies to this second point.

And that is something that is inscribed that says, "Within this edifice are established agencies that have been created to buttress the life of the people; to clarify their problems; and coordinate their

resources; seeking to lighten their burdens without lessening the responsibilities of the citizen."

And that, I thought when I was bringing up this second point, that it hit right on target.

Third, we respond and must continue to respond to changes in the industry and in the market. I just mentioned the term "tourism industry." Yet, USTTA serves so many entities involved with tourism: State and local governments, other Federal agencies, regional tourism organizations, and even our international visitors.

My written statement sets forth the various elements of USTTA's role in implementing our national tourism policy, and serving its broad constituency, and gives a number of examples of its work in furtherance of those elements. I would like to just highlight a few.

First, we do tourism promotional work through our 13 regional offices in 9 foreign countries. Not only do these offices gather invaluable marketing intelligence and establish an important U.S. presence in these markets, but they also act as a catalyst for U.S. travel and tourism companies, large and small, to sell U.S. travel and tourism products and services in other lands.

Many—but not all—of the promotional functions that our offices perform are done in concert with marketing efforts of America's travel and tourism companies.

Let me stress that the job of international marketing, of effectively selling the American tourism product to selected countries overseas, most often requires resources beyond those available at the Federal level. The only effective way to get the job done is cooperatively, on a regional basis, with strong participation by industry. We also facilitate the tourism promotional efforts of the 50 States and of our insular areas.

While USTTA is primarily known for its promotion efforts, there are many other functions which it performs. First, USTTA advocates Government and industry actions which will provide for the long-term success of America's tourism interests. For example, USTTA advocates the preservation of something vitally important to all Americans: the environment.

America's environmental treasures are some of the Nation's most popular tourist sites and destinations. As a result, the preservations of these gems—whether it is Yosemite National Park or the Chesapeake Bay—is vitally important. Now granted, USTTA is neither the Department of the Interior nor the Environmental Protection Agency.

But it is entirely appropriate for us to work with the tourism industry and other Federal agencies to make sure that tourism development of these attractions does not end up killing the goose that laid the golden egg.

Second, USTTA is involved in developing and promoting rural America. As you know, many of America's rural community need to diversify their industrial base. They need to move into industries such as tourism, that can create additional jobs and tax revenues.

What you may not know is that many of our international visitors want to see what they call the real America. They want to see those beautiful areas of our country, away from the congestion of the cities.

For these reasons, USTTA has gone to great lengths to enhance tourism opportunities in rural America—and particularly to help rural communities develop their rural tourism product.

Third, USTTA is working to improve the methods whereby the U.S. Government processes international visitors. I know you have all heard the horror stories. And my written statement outlines what we are trying to do to improve this sore point in our country's tourism picture without compromising our national security and the integrity of our borders.

Fourth, we educate domestic providers of tourism products about the demands made by the international travel market. Next month we are sponsoring two seminars to educate domestic providers on evaluating the local tourism product; choosing a target market; producing cooperative marketing plans; and undertaking a wide range of promotional activities. In 1992 we will be sponsoring four such seminars.

Fifth, we work closely and assist the Departments of State and Transportation and the U.S. Trade Representative in opening more markets to U.S. tourism. We are involved in the policy aspects of bilateral and multilateral negotiations to ensure that the barriers of other countries to outbound tourism are removed.

I could, of course, go on and on. But in the interest of time, Mr. Chairman, I will close with some quick views on S. 680, the Tourism, Policy, and Export Promotion Act of 1991.

S. 680 would update the International Travel Act of 1961 to ensure that the act, and USTTA will appropriately serve our national tourism interests in the decade of the 1990's and beyond. The administration would support the enactment of S. 680 with some revisions. My written statement sets forth these concerns.

I am confident, however, that we can arrive at a bill that the President would be pleased—more than pleased—to sign into law. And while not rising to a major concern by any means, I will say—what you touched on about my one concern on the one, section 3, which identifies the national goal of the bill—to increase and sustain U.S. export earnings, and to maintain a travel and tourism export surplus.

I would say, with all due respect, that it should be a more broad—a broader goal than that. Section 3, I feel, fails to give due weight to section 11 which, besides increasing U.S. export earnings, would also add two new elements to our national tourism policy, ensuring the orderly growth and development of tourism, and coordinating and encouraging the development of the rural tourism industry.

Given the prominence of section 3 in the bill, I would like to see—or see it highlight all of these goals together—and emphasize a key to our national tourism policy, increased tourism development.

For increased tourism development is important for the United States regardless of where visitation originates.

And Mr. Chairman, that concludes my lengthy summary, and I would be pleased to try and answer any questions you or the committee may have.

[The prepared statement of Mr. Keller follows:]

PREPARED STATEMENT OF MR. JOHN G. KELLER, JR.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before you to discuss the importance of the travel and tourism industry to the United States economy, the role of the United States Travel and Tourism Administration (USTTA) in implementing the national tourism policy set forth in the International Travel Act of 1961, and how the International Travel Act should be revised to ensure that our national tourism policy and USTTA will appropriately serve this nation's interests in the 1990's.

As set forth in the International Travel Act, the first objective of our national tourism policy is to "Optimize the contribution of the tourism and recreation industries to economic prosperity, full employment, and the international balance of payments of the United States."

Toward this objective, USTTA seeks to encourage the United States travel and tourism industry to expand its international trade efforts to increase United States export earnings through trade in tourism; increase the number of medium and small sized firms involved in the international travel export market; provide accurate and timely market research and economic data on international travel markets to United States international travel firms; identify and seek to eliminate barriers to the entry and growth of United States tourism services in the international market; facilitate the entry of small and medium sized business into the international market by providing them with the market intelligence, counseling, and training necessary to develop their international tourism export marketing programs; and encourage and sponsor involvement by regional organizations and state and local governments in international tourism development efforts through seminars, workshops, and other forms of technical assistance.

The International Travel Act has not been updated since 1981, and appropriations to fund USTTA's activities have not been authorized since FY 1982. However, the act provided the Secretary of Commerce and USTTA with the broad enabling authority needed to implement our national tourism policy over the decade of the 1980's. Further, the Congress, particularly because of the efforts of the House and Senate tourism caucuses, has never ceased to recognize the importance of USTTA and particularly its role as our national tourism offices in foreign lands, and has continued to fund USTTA through appropriations.

I am pleased that the President's budget request for FY 1992 supports USTTA and its continued funding.

IMPORTANCE OF THE TRAVEL AND TOURISM INDUSTRY TO THE ECONOMY

In 1990, total travel and tourism expenditures in the United States exceeded \$327 billion, accounting for about 6 percent of our GNP. This made travel and tourism the third largest retail industry and the second largest private employer in the United States, contributing to the generation of almost 6 million jobs. I think nothing more needs to be said regarding the importance of the travel and tourism industry to our economy.

EXPORTING UNITED STATES TRAVEL AND TOURISM

As events of recent years have so clearly indicated, the world has become a global marketplace and U.S. industry has had to adapt. If America is to remain a prosperous nation, U.S. industry needs to be competitive in the world economy. And this means it must be able to provide the highest quality products and services at attractive prices and export them to diverse markets worldwide. Indeed, as the President has repeatedly said, exports are the key to this nation's economic growth.

The United States offers the finest business and leisure travel destinations in the world. Last year, 39 million international travelers spent \$53 billion in the United States and on international fare payments to U.S. carriers. All told, our travel trade balance of payments for 1990 was in surplus by more than \$5 billion. These figures show that America's tourism products or services are of high quality and that the United States travel and tourism industry is tapping the international market.

Projections for annual growth of tourism worldwide for the decade of the 1990's range from 5 to 10 percent. Much of this growth will come from increasing levels of disposable income and leisure time throughout large portions of East Asia, Eastern Europe and Latin America.

THE ROLE OF THE FEDERAL GOVERNMENT: PROVIDE THE FOUNDATION FOR ENHANCED TOURISM DEVELOPMENT

Because of its product and the growth of the world market, the American travel and tourism industry has a golden opportunity through enhanced travel and tour-

ism trade development to tap and capture a far greater share of the world market than it now has.

Indeed, it has been said that "the loftiest edifices need the deepest foundations." And while the Federal Government does not provide the product with the exception of things like our national parks, forests, and marine sanctuaries, it must establish a deep, well-laid foundation for enhanced tourism development. As I see it, there are three cornerstones of this foundation.

The first cornerstone is awareness. We must make people aware of the economic impact of a healthy national tourism industry. USTTA needs to do a better job of making known one of the keys to a healthy travel and tourism industry—that is, of course, enhanced travel and tourism trade development.

We must ensure that leaders in government and business, not to mention the American people themselves, realize the importance of improving our nation's ability to offer a quality tourism product; hence, the importance of awareness.

The second cornerstone is unity. Admittedly, few important American industries are so broad and involve so many sectors. We have airlines, bus lines, hotels, motels, bed and breakfasts, restaurants, travel companies, attractions, financial services companies, and car rental companies. The list goes on and on. The travel and tourism industry, with its myriad of components, is a hard one to grasp.

Too many casual observers see our country's recent gains in tourism as only benefiting a select few of the "big" airline companies, hotel companies, and tourist destinations. To the contrary, in 37 of our 50 states tourism is now, either the first, second or third largest industry. Our gains in tourism have meant jobs, tax revenues and economic opportunity for thousands of owners of rental car companies, "mom and pop" motels, curbside diners and country inns. Clearly, the industry's success is America's success.

Tourism development is an under-utilized, economic development tool. And it is a tool that could be used throughout our land—in communities large and small.

Already, USTTA has done a great deal to foster enhanced levels of awareness and unity through our leadership of the "Go USA" Travel Industry Coalition and through our co-chairmanship of the Travel and Tourism Awareness Council.

As we all know, the impact of the recession and gulf war proved to be very severe on the tourism industry. As a result, my predecessor, Deputy Secretary Rockwell Schnabel, helped facilitate the formation of what is now known as the Travel Industry Coalition. This is a group of 60 industry-related companies who were, and remain, interested in working together to fight the effects of the recession and gulf war. They had their first meeting this past February in Secretary of Commerce Mosbacher's conference room at the Department of Commerce.

The coalition has raised over \$6 million to pay for a major advertising campaign aimed at American consumers, urging their return to normal travel habits. With the support of the President, the First Lady and Secretary Mosbacher, as well as the leadership provided by Bill Marriott of Marriott hotels and Fred Kalek of Northwest Airlines, the coalition has generated a dramatic improvement in Americans' willingness to return to their normal travel habits.

But we still have a ways to go. Because of its success in the domestic market, the coalition is considering a continuation of its work, perhaps expanding it to include the international market. Hopefully its international work would meet with the same success.

The third cornerstone is an updated national tourism policy. This is where Congress has two vital roles to play: 1) revising the International Travel Act to ensure that our national tourism policy and USTTA will appropriately serve this nation's best interests in the 1990's; and 2) conducting its oversight function of USTTA. In this, we must be partners.

With these cornerstones of awareness, unity and an updated national tourism policy, we will have come a long way toward meeting the challenges of the 1990's, and beyond.

USTTA'S ROLE IN IMPLEMENTING NATIONAL TOURISM POLICY AND ITS PROGRAMS AND INITIATIVES

Before I outline USTTA's programs and initiatives, I would like to state three very important points about USTTA's role so that you can view our activities in their proper context.

First, we are not just in the business of international tourism marketing—we are in the business of tourism development.

Second, we direct and must continue to direct our activities towards doing things the industry cannot do by itself and as acting as a catalyst.

Third, we respond and must continue to respond to changes in the industry and market. Indeed, industries like empires and species, prosper or perish—depending on their ability to change.

With these points in mind, I would like to briefly outline some of the programs and initiatives of our agency.

Most of you know of USTTA because of its tourism promotional work. This is the work done by our 13 regional offices in nine foreign countries in which we promote the U.S. as the world's premier tourist destination. Not only do these offices gather invaluable market intelligence and establish an important U.S. presence in these markets, but they also act as a catalyst for U.S. travel and tourism companies, large and small, to "sell" United States travel and tourism products and services in other lands.

Many—but not all—of the promotional functions that our offices perform are done in concert with the marketing efforts of America's travel and tourism companies.

We also facilitate the marketing efforts of the 50 states and of the insular areas. Through our regional market development program we are encouraging all 50 states and insular areas to work within regional coalitions of which they are a part. This is very important so that those regions and states that cannot market themselves internationally in an effective manner have the chance to reach the international market as part of a regional campaign.

Let me stress that the job of international marketing—of effectively selling the American tourism product to selected countries overseas—most often requires resources beyond those available at the federal level and beyond those available at the state and local level. The only effective way to get the job done is cooperatively, on a regional basis, with strong participation by industry.

Besides the cost factor, this makes great sense from a pure marketing viewpoint. Most international visitors to our country want to see various states within selected regions. Most potential visitors to the United States have to invest much time and money just to get here. To maximize that investment they do not want to limit their visit to one city or one state. Thus, in order to "sell" America on a regional basis, USTTA directs much of its resources to helping regions market themselves.

In 1989 USTTA's regional office in Tokyo learned that the Japanese were very interested in witnessing America's "cowboy culture" of 100 years ago that they had read and heard so much about. Knowing that this culture is exhibited in portions of the West, USTTA found that there is a section of Highway 89 that cuts through the states of Montana, Wyoming and Utah that makes it very easy for tourists to witness various exhibits, museums, and other attractions highlighting this long lost American way of life.

As a result, USTTA introduced a program in Japan, a very lucrative market for the United States, promoting travel to this area of our country. The name of this program was "Highway 89 in '89." In the first year of the program's existence, thousands of Japanese travelers came to this part of our country—where they had never before come in any appreciable numbers—and spent in excess of \$1.5 million.

The work of Montana's, Wyoming's, and Utah's tourism offices was commendable; they, like the rest of the states, have a tremendous product to offer to the world.

But I dare say: This success story would not have taken place were it not for the intelligence gathering, the marketing, and the facilitating that USTTA did.

While USTTA is primarily known for its promotion efforts, there are many other functions it performs. The fact that this is not well known is probably USTTA's fault.

One example is advocating government and industry actions which will provide for the long-term success of America's tourism interests. For example, as the implementer of America's tourism policy, and serving in its role as catalyst for the tourism industry, USTTA advocates the preservation of something vitally important to all Americans—the environment. America's environmental treasures are some of our country's most popular tourist destinations. As a result, the preservation of these gems—whether it's Yosemite National Park or Chesapeake Bay—is vitally important. Now, USTTA is neither the Department of the Interior nor the Environmental Protection Agency, but it is entirely appropriate for us to work with the tourism industry to make sure that tourism development of these attractions does not end up killing the goose that laid the golden egg.

Another example is USTTA's role in developing and promoting rural America.

As the Members of Congress from rural America well know, America's rural communities need to diversify from agriculture and manufacturing. They need to move into industries, such as tourism, that create jobs and tax revenues.

What you may not know is that our international visitors want to see more of what they term, "the real America." They want to see those beautiful areas of our country that are far away from the congestion of our cities.

For these reasons, USTTA goes to great lengths to foster the development and marketing of tourism opportunities in rural America.

USTTA is working with the President's Economic Policy Council Working Group on rural development to enhance tourism opportunities in rural America.

Further, USTTA has done a great deal to advise the leadership of various rural communities on how to develop a tourism product, how to establish an infrastructure to maintain a tourism industry, and how to market that product. An excellent illustration of the benefits of these efforts is apparent in Fort Scott, Kansas, where rates of international tourism increased by 300 percent the first year after the implementation of such a program, in which USTTA played a leading role.

So, you see, this kind of success is great for American tourism in general as well as for this particular rural community in America's heartland.

The development of tourism opportunities featuring America's tremendously broad ethnic heritage is another concept that deserves enthusiastic support.

Perhaps no one feature better distinguishes America from all other nations than that our 50 states are a melting pot of multitudinous ethnic cultures and backgrounds representing virtually the entire world. Like so many other characteristics of America's, this is attractive in the eyes of international visitors.

By way of background, I am sure that you are all aware of the President's commitment to minority business development opportunities. This is a high priority of the President's, and USTTA is assisting the Commerce Department agency charged with this mission, the Minority Business Development Agency (MBDA), in accomplishing it. Together, we have initiated a joint program to promote tourism development opportunities in those areas that boast a deep heritage of Native-, Hispanic- and African-American culture. Fourteen cities and rural areas were chosen on the basis of the extent of their minority culture and history, as well as the particular area's ability to develop and maintain a prosperous tourism industry.

In this way, USTTA is promoting, to those international markets where we have detected an interest, those areas of America that have a particularly heavy concentration of minority culture and history.

One noteworthy example of the success I envision of this program is the interest on the part of our Japanese friends, in seeing Harlem. The Japanese have read or seen a great deal about Harlem being a base for the beginnings of African-American culture in North America, and the Japanese are interested in seeing this first-hand. When USTTA and MBDA are done fully developing this program, we plan on seeing not only increased tourism, but increased minority business opportunities generated by that tourism.

Another role USTTA performs is improving the methods whereby the U.S. Government processes international visitors. We have all heard the horror stories about international visitors being stranded at Customs or Immigration clearance checkpoints at our major gateway airports, sometimes for as many as four hours. USTTA projects that the annual number of visitors to the United States will significantly increase over the next three years. Indeed, visitor clearance and facilitation is one of the most pressing issues confronting us.

As chairman pro tempore of the Tourism Policy Council, the Federal Inter-Agency Tourism Policy Coordinating Council established by the International Travel Act, I am in touch with the officials of Customs, Immigration, and other involved federal agencies and, I promise you, we are all committed to working tirelessly to improve this sore point in our country's tourism picture without compromising national security and the integrity of America's borders.

I am pleased that the Departments of State and Justice have recently agreed to expand the visa waiver program from 8 to 30 countries. This program of waiving non-immigrant visa requirements will enable more international visitors to obtain an expeditious clearance through America's gateway airports.

There are also other programs, at various points in development, that will help alleviate the problem. These include: the Customs Bureau's advanced passenger information service (APIS) and pre-clearance program as well as pre-inspection which is administered jointly by Customs and INS. All of these programs aim to facilitate a more expeditious clearance for our international guests using high technology communications equipment.

USTTA, itself, administers a "gateway receptionists" program in conjunction with the Department of Education at 12 United States international arrival airports. This program is designed to provide interpreter service, in 37 languages, to arriving international passengers to help speed them through processing and to make them feel welcome. This program was recently credited by a GAO report that you commissioned, Mr. Chairman. Let me move on to other things USTTA does.

For example, USTTA is working hard to educate the domestic providers of tourism products about the demands made by the international tourism market. For ex-

ample, less than three months from now we will hold, in conjunction with the Travel Industry Association, regional educational seminars, programmed into only those areas more recently interested in the international markets. A top notch "faculty" will be assembled, which includes a USTTA regional director, a domestic as well as an overseas tour operator, representatives of state and city tourism organizations, receptive agents, and selected USTTA headquarters marketing and research staff members. Subjects to be covered include "how-to" sessions on choosing an international target market, evaluating the local tourism product, start-up promotional activities in the market, production of a multi-year marketing plan, cooperative marketing plans, and regional marketing plans, just to name a few.

Scheduled to cover all regions of the United States on a rotating basis, each seminar draws attendance of tourism "exporters" from 8 to 10 adjoining states. These include airline representatives, hoteliers, tour operators, and representatives of rental car companies, bus companies, bed and breakfasts and other elements of the local travel and tourism industry.

Quite simply, the more that American small- and medium-sized business owners know about trade promotion in tourism, the better the prospects for grass roots growth for the entire industry.

For another example, USTTA negotiates, in conjunction with the Departments of State and Transportation, a number of bilateral and multi-lateral trade agreements and tourism side letters in order to further open up the international tourism market. An example is the work that USTTA's Office of Policy is doing with the Canadians.

As I have mentioned, Canada is America's largest market for inbound tourism; yet, a number of significantly sized Canadian population centers are not served by airlines that fly into the U.S. We are working to open this up so that more Canadians can do what they want: travel to the U.S.

Furthermore, USTTA is currently involved in negotiations regarding services for the GATT and involved in administration efforts to negotiate a north American free trade agreement.

For my last example, USTTA works to improve the quality of the research and market data that it uses itself and that it provides the rest of the U.S. Government and the tourism industry. We are constantly doing international market research in order to better understand the populations most open to marketing efforts by U.S. companies and regional coalitions. In this way, all can better target their limited resources.

So, as you can see, there is a great deal that we do, both in trade promotion and policy, to attract visitors to the U.S. and to ensure that we here in the United States—the providers—do all that is possible so that our visitors' stay here is pleasurable. USTTA's job is to do this by providing industry, state and local governments, other federal agencies, and regional organizations, with services that, in many cases, would otherwise fall by the wayside—services that often times only a federal agency can provide.

S. 680

I would now like to briefly outline the administration's views on S. 680, the "Tourism Policy and Export Promotion Act of 1991."

S. 680 would update the International Travel Act of 1961 to ensure that the act and USTTA will appropriately serve our national interests in the decade of the 1990's. Further, the bill would authorize appropriations for USTTA's fiscal year 1991-1993 activities. The administration would support the enactment of S. 680 provided it is revised as follows:

First, section 3 would make it the goal of S. 680 "to increase and sustain United States export earnings from United States tourism and transportation services traded internationally and to maintain a travel and tourism export surplus in order to help eliminate the overall United States trade deficit."

I must say with all due respect, that the goal of S. 680 should be much broader—to update United States tourism policy to ensure that it and USTTA will appropriately serve this nation's best interests in the 1990's. Increased tourism development is important for the United States regardless of where visitation originates. I am pleased that section 3 will not become part of the International Travel Act by itself. Rather, section 11 is where S. 680 would actually revise our national tourism policy. There increasing "United States export earnings from United States tourism and travel services traded internationally" would be made the number two objective of our national tourism policy. Perhaps more importantly, section 11 would add two new elements to our national tourism policy and make them our number three and four objectives—ensuring the "orderly growth and development of tourism" and co-

ordinating and encouraging "the development of the rural tourism industry". However, given the prominence of section 3 in the bill we would like to see it revised to highlight these goals and to emphasize the key to our national tourism policy—increased tourism development.

Second, section 5 would require the Secretary of Commerce to identify, analyze, and estimate the impact of acts, policies, or practices of each foreign country that constitute significant barriers to, or distortions of, United States travel and tourism exports. This provision would duplicate efforts of the Office of the United States Trade Representative (USTR) which reports annually on foreign barriers to United States exports of goods and services. USTTA cooperates, and works together, on a regular basis, with USTR in compiling information on these types of barriers. Section 5 would also require the Secretary to estimate the trade distorting impact on United States commerce on any act, policy, or practice so identified, and the value of additional United States travel and tourism exports that would have been exported to each country during such calendar year if each such act, policy, or practice did not exist. To do this would be overly burdensome in time and cost. Accordingly, we recommend the deletion of section 5.

Third, section 8 would require the Secretary to ensure that the services of the United States and Foreign Commercial Service (US&FCS) continue to be available to assist USTTA at locations identified by the Under Secretary of Commerce for Travel and Tourism, in consultation with the director general of the US&FCS. On principal, it is objectionable for Congress to direct a Cabinet officer to have two agencies under his or her direction cooperate with one and another. That is presumably why agencies are grouped in particular departments—to aid each other in accomplishing departmental missions and in accomplishing their own missions.

Further, Mr. Chairman, I am pleased to report that USTTA coordination with the Foreign Commercial Service component of the US&FCS is well developed in most markets, even those in which USTTA maintains its own presence. Presently, USTTA and US&FCS cooperate in "Visit USA" committees in 19 countries. These countries are Australia, New Zealand, Japan, Korea, Hong Kong, Brazil, Argentina, Colombia, Venezuela, Peru, Spain, Belgium, The Netherlands, Denmark, Sweden, Norway, Finland, Switzerland and trade shows for host country travel agents and other members of the travel industry who promote tourism to the United States.

Tourism is on the agenda for the four US&FCS annual regional senior commercial officer conferences. At these conferences, USTTA will brief US&FCS officers on the latest developments in inbound tourism and discuss joint action plans. Also we will consider identifying additional countries where, together, USTTA and US&FCS can organize Visit USA committees. Accordingly, we would like to see section 8 deleted.

Fourth, section 9 of the bill would create a charitable and non-profit corporation to be known as the "Rural Tourism Development Foundation," similar to the National Park Foundation, to assist USTTA in developing and promoting rural America as a travel destination for international visitors. The foundation would be administered by a board of directors, whose voting membership would be composed of nine to fifteen private citizens with experience in tourism matters. Its non-voting, ex-officio members would be the Under Secretary of Commerce for Travel and Tourism and representatives of federal agencies responsible for recreational sites in rural areas, as the board determines appropriate.

The administration supports the concept and objectives of the foundation. It is an innovative way of forging a partnership between the private sector and USTTA in the development and promotion of rural tourism. However, the Department of Justice believes that the creation of a federally-chartered, nominally private foundation to assist a federal agency in accomplishing its mission would pose legal problems. The fact that the foundation's directors would be originally appointed by a federal official, and that the foundation could use the services and facilities of the federal government upon request without reimbursement therefore, is inconsistent with the roles of the private sector and the federal government. A better approach would be to keep the establishment and direction of the foundation, including any fund raising efforts, entirely separate from the federal government. This could be accomplished by revising the bill to allow the Under Secretary for Travel and Tourism to designate a foundation or corporation established under state law to carry out the purposes set forth in the bill. The National Endowment for Democracy Act (22 U.S.C. §§4411-4413) and section 201 of the Support for East European Democracy Act of 1989 (22 U.S.C. §5421) (Enterprise Funds) provide possible models.

Fifth, section 12 of the bill would authorize appropriations for USTTA of \$18 million for FY 1991, \$21 million for FY 1992, AND \$24 million for FY 1993, of which no more than \$500,000 in any year could be appropriated to match partially or wholly the amount or value of contributions to, and provide administrative services for the Rural Tourism Development Foundation that would be established by section

9. Section 12 needs to be revised to make the authorization level consistent with the President's budget request—\$17.686 million for FY 1992, and such sums as may be necessary for FY 1993. In addition, the President's FY 1992 budget request does not include funds for the Rural Tourism Development Foundation. Funding for a rural tourism development foundation should come from the private sector. Consequently, the authorization of appropriations for that purpose needs to be deleted.

In conclusion, Mr. Chairman, I would like to assure you and the rest of the subcommittee of our willingness to work together to arrive at an enrolled bill that the President will be pleased to sign into law.

I would be pleased to answer any questions that you or the members of the subcommittee may have.

Senator ROCKEFELLER. Mr. Keller, we have another vote call. And I actually have 16 questions that I would like to ask you. But I could not do that, even if there were no vote called.

So, what I think I will do, Senator Bryan, Senator Burns, if it is all right, is suggest that we submit questions to you so that we do not hold you. And then let me just say that again, that I really feel good about our working together. I think it is going to be a good relationship. And I think we can see this reauthorization bill through and have the President sign it, which I know he wants to do.

Mr. KELLER. Absolutely.

Senator ROCKEFELLER. So, I am really pleased that you have come. I apologize for this vote, but it shows at least that we are doing something. And we will work well together.

Mr. KELLER. Indeed.

Senator ROCKEFELLER. And you will get 16 questions from me, and several others from other members.

Mr. KELLER. We welcome them.

Senator ROCKEFELLER. Thank you very much.

Mr. KELLER. Thank you, Mr. Chairman.

Senator ROCKEFELLER. I would like to exercise, Senator Bryan, my prerogative here, as chairman, in a little fashion, if you do not mind, and call John Brown, Jr., who is commissioner of the West Virginia Division of Tourism and Parks to the stand.

I think you would do that too, you understand that—

Senator BRYAN. I understand that. It is what has caused you to rise to the meteoric heights that you have, Mr. Chairman, so I quite agree with your judgment there. [Laughter.]

Senator ROCKEFELLER. John, as I have told you a number of times, I think that what you and Governor Caperton are doing for tourism is absolutely first-rate. And I think it follows, you know, on the spirit that I tried to bring to tourism in the State of West Virginia that we are being battered on a lot of fronts. But there is an enormous opportunity. And it continues to grow. And your stewardship is very precise, and very steady, and very exacting.

And we welcome you here, and are delighted to hear what you have to say.

STATEMENT OF JOHN H. BROWN, JR., COMMISSIONER, WEST VIRGINIA DIVISION OF TOURISM AND PARKS

Mr. BROWN. Thank you very much, Senator Rockefeller. It is a pleasure to be here.

Mr. Chairman, members of the subcommittee, I want to thank you for the opportunity to testify on a subject that significantly in-

fluences the economy of the State of West Virginia in its endeavor to create a viable and lucrative tourism industry.

I am referring to the projects and programs of the U.S. Travel and Tourism Administration and the impact that they have with regard to the international tourism marketing programs of the State of West Virginia.

My name is John Brown, and I am the Commissioner of the State of West Virginia's Division of Tourism and Parks. And my job basically is to develop, implement, promote, and manage a comprehensive tourism program for the State of West Virginia and to oversee our extensive State park system.

Efforts to develop the tourism industry in West Virginia began in the late 1970's under the Mr. Chairman, up there, Senator Rockefeller. And the efforts that he made really made a significant improvement in the recognition of West Virginia as a tourism destination.

West Virginia began to capitalize on its natural assets of mountain scenery, outdoor recreation, and, indeed, cultural heritage. Unfortunately, those gains were largely lost due to a deemphasis of tourism marketing in the middle-to-late 1980's. According to national tourism statistical studies, West Virginia lagged behind the general increases in the United States at this time.

While the Nation's tourism industry grew by approximately 8.8 percent, West Virginia's tourism industry grew by only 1 percent during that period of time.

In 1989, an act of the West Virginia Legislature, supported by Gov. Gaston Caperton designated proceeds from the West Virginia lottery—believe it or not—to be used for education, senior citizen's programming, and tourism. As a result of the consisting funding source made possible by this act, the tourism industry of West Virginia is, once again, growing and expanding.

To illustrate this growth, we commissioned an economic impact study of tourism in West Virginia during the past 2 years, 1989 and 1990. At a time when the Nation faced economic recession and a crisis in the Persian Gulf which inhibited travel and tourism, West Virginia tourism revenues grew by about 6.6 percent during those—from 1989 to 1990.

Last year overall, revenue from West Virginia's tourism industry was about \$2.5 billion, a gain of \$154 million over 1989 and approximately one-ninth of the State's gross product. So, I think you can see it is a very significant part of our economy in West Virginia.

In addition, tourism industry growth increased West Virginia's employment force by over 2,000—actually, 2,419 new jobs in the State from 1989 to 1990—for a total of over 40,300 jobs, full-time workers in this industry in the State. And the industry payroll, the tourism industry payroll increased by about \$60 million.

Now like the Nation, West Virginia's economy is evolving from a manufacturing, heavy industry focus to a more service industry orientation. Last year, travel and tourism ranked as the No. 2 employer in our State.

To ensure continued growth of West Virginia's economy, we must assure the continued growth of travel and tourism by promoting it in our market regions. While West Virginia's tourism promotion ef-

forts have strongly focused on the regional domestic market, we have found that the international market also represents an important source of tourists for our State.

Obviously, we cannot emphasize that very much in our small budget—and I will explain a little later how USTTA has helped us in that regard on the international tourism front. As our interstate highway system in West Virginia was completed, more and more Canadian travelers began using West Virginia highways to travel to southern destinations. And thus, we targeted Canada as a major tourist market.

In 1990, over 150,000 Canadians traveled in and through West Virginia. In addition to those Canadians who drove their private automobiles, there are many who are visiting West Virginia by means of motorcoach tours. Canadians represent one of the top five groups which visit West Virginia on organized tours. As a result, last year we organized a week-long, public and private sector tourism/trade mission to Ontario to try to capture more of that market.

With the absolute essential direction and assistance of USTTA, West Virginia was able to conduct a successful mission and host a significant information and hospitality event which continues to influence Ontario travel and tourism operators, and travel-related media.

Because of USTTA's commitment to assisting States and U.S. communities, West Virginia will be able to conduct another mission to Canada this year, in September. Without the infrastructure of support from USTTA, and West Virginia's ability to call upon USTTA for technical assistance and international connections, it is unlikely that we could ever successfully compete in the international tourism market—whether it is in Canada or abroad.

Although our tourism promotion budget has been significantly increased, West Virginia still ranks only 34 among the 50 States in terms of funding for tourism projects. Our budget allows us to do only so much. States with limited resources, like West Virginia, and States which are suffering under the effects of economic recession, must have the support of USTTA to compete in the international tourism arena. It is as simple as that.

West Virginia has realized and demonstrated the importance of both domestic and international tourism as it influences the evolving economy of a single State. For a \$3 million investment in tourism promotion—and that is what we spent in West Virginia—West Virginians have received almost \$2.5 billion in return. That is quite an investment, quite a return on investment. As an old banker, I would like to have that ROR all the time.

I submit to you that the method of our success is applicable to the rest of the Nation as well. In 1990 the Nation enjoyed a significant trade surplus, as was mentioned here many times, in international tourism. Despite USTTA's limited—and I would venture to say inadequate—funding. And in 1991 this trade surplus is expected to grow.

Mr. Chairman, I implore you and members of your committee to recognize international travel and tourism as an industry which is crucial to our Nation's financial stability. I ask you to continue to support the projects and programs of USTTA in their efforts to fa-

cilitate this industry and assist States, such as West Virginia to reach beyond our Nation's borders to attract foreign visitors.

Thank you, sir.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF JOHN H. BROWN, JR.

Mr. Chairman, members of the Subcommittee, thank you for this opportunity to testify today on a subject that significantly influences the economy of the State of West Virginia and its endeavor to create a viable and lucrative tourism industry. I am referring to the programs and projects of the U.S. Travel and Tourism Administration (USTTA) and the impact that they have with regard to the international tourism marketing programs of the State of West Virginia.

My name is John Brown and I am the Commissioner of the State of West Virginia's Division of Tourism and Parks. My charge is to develop, implement, promote and manage a comprehensive tourism program for the State of West Virginia and to oversee our extensive state park system.

Efforts to develop the tourism industry in West Virginia began in the late seventies under former Governor John D. Rockefeller IV and such efforts made significant gains. Unfortunately, those gains were largely lost due to a de-emphasis of tourism marketing in the middle to late 1980's.

Previously, statistics from the U.S. Travel Data center indicated that West Virginia had realized only small growth in travel and tourism expenditures. For example, the 1986-1987 West Virginia statistics trend lagged substantially behind the general increases in the U.S. West Virginia grew at 1 percent versus an 8.8 growth percent nationally in the industry.

However, an act of the West Virginia Legislature, as supported by Governor Gaston Caperton in 1989, designated proceeds from the West Virginia Lottery to be used for education, senior citizens and tourism. As a result of a consistent funding source made possible by this act, the tourism industry of West Virginia has made incredible strides with reference to growth, expansion and economic impact—on the domestic level in the last two years.

To illustrate West Virginia's tourism growth, we commissioned an economic impact study for 1989 and 1990. The comparison is astounding. At a time when the nation faced economic recession, West Virginia tourism industry revenues grew by 6.6 percent from 1989 to 1990.

In 1989, the total impact of the tourism industry on West Virginia's economy was \$2.321 billion. This resulted in total full time equivalent employment of 37,960 workers with a payroll of \$401 million.

In terms of state tax receipts, the industry generated \$14 million in personal income tax, \$5 million in corporate tax, and \$85 million in state tax. Overall, the industry generated \$104 million in state taxes in the year 1989.

In 1990, the West Virginia Travel and Tourism Economic Impact study was conducted once again. Results of the study demonstrated that overall revenues from the industry were \$2.475 billion in 1990, representing a \$154 million gain.

In addition, travel and tourism accounted for the generation of \$108 million in state tax revenues—a four million dollar increase over 1989.

Tourism also made substantial gains in West Virginia's employment force in 1990 with a total of 40,379 full time equivalent workers representing an increase of 2,419 employees. Total payroll increased by of \$60 million from 1989 to 1990.

Not unlike the nation, itself, West Virginia's economic base is evolving from a manufacturing/industrial focus to a service industry orientation. Last year, travel and tourism ranked as the number two employer in our state. To assure continued growth of West Virginia's economy, we must assure the continued growth of travel and tourism through its promotion in our market regions.

Expectations for the results of the 1991 economic impact study are quite high. During fiscal year 1990-1991, the West Virginia Division of Tourism and Parks utilized approximately \$2.8 million to promote West Virginia as a tourism destination by using print and broadcast advertising within a narrow radius of our domestic marketplace.

As a result of our programs, calls to our toll-free tourism hotline have increased dramatically. During a spring flight of broadcast advertising in eleven metropolitan markets encompassing six states and the District of Columbia, domestic inquiries to 1-800-CALL-WVA increased as much as 200 percent on peak days.

Many of the members of this Subcommittee have probably seen West Virginia's advertisements, and are familiar with our endeavor to promote domestic tourism.

Many of you have visited West Virginia and, in doing so, have become aware of our vast natural assets and aesthetic, pleasing environment.

While our promotional endeavors have focused primarily on the domestic market, we have found that the international market also represents an important potential source of tourists for west Virginia.

As U.S. Interstates 77, 79 and 64 were completed through West Virginia, more and more travelers began to utilize these vital passageways to access northern and southern destinations. With convenient access, beautiful scenery and light traffic flows, these highways allow our Canadian neighbors who travel through West Virginia, to also stop and spend a day or two with us.

In 1990, 882,162 individuals registered their names and addresses at West Virginia highway visitor centers. of this number, 45,184 individuals were of Canadian origin, representing 5.12 percent of total registrants. If we apply this percentage to the total visitations to the centers, we may estimate that over 130,000 Canadians traveled to or through West Virginia in a twelve-month period.

In addition to those Canadians who travel by private automobile, we have seen an ever-increasing influx from Canadian-originated motorcoach carriers.

Citing statistics from the National Tour Association report of 1989, we may conclude that the Canadian motorcoach market is becoming a vital portion of West Virginia's overall tourism economy: During that year, tours to our state, which originated in Ontario, represented 13.48 percent of total passenger nights into West Virginia by National Tour Association operators. Ontario ranks as number four among the leading places of origin for visitors to West Virginia who travel by motorcoach.

Thus, while in the embryonic phase of development, international tourism marketing is rapidly becoming a lucrative opportunity for the State of West Virginia.

Taking note of our increasing gain of Canadian travelers, staff from the west Virginia Division of Tourism and Parks and West Virginia Governor Gaston Caperton gathered representatives of the state's tourism industry to conduct a trade mission to Toronto, last August.

With the help of the U.S. Travel and Tourism Administration's Toronto office representatives, West Virginia was able to host a significant information and hospitality event which continues to influence Ontario travel and tourism operators and travel-related media.

Jack Richardson, Bill Tolson and USTTA's Toronto staff served as the guiding force behind this mission, and without their assistance, I would venture to say that such a mission would have been impossible for a state such as West Virginia.

Although our tourism promotion budget has been significantly increased in the past few years, West Virginia is ranked 34 among the 50 states in terms of funding for tourism projects. Our budget allows us to do only so much.

Because of USTTA's commitment to assisting states and US communities, we are now able to host another mission. Unlike the first, the mission slated for September 17, 1991 will be developed in partnership with our regional neighbors, North Carolina and Tennessee.

West Virginia has learned a vital lesson in economics from its work in tourism. And that is that partnerships with neighboring states and utilization of the regional approach can enable a state with limited resources to reach far beyond the scope of its singular budget.

It is the regional concept which has prompted another federal agency, the Appalachian Regional Commission, to support international tourism endeavors for the first time in the commission's history.

Noting that international tourism is one of the nation's most viable export products and one of the most efficient and effective means of producing income in the counties of the thirteen states which comprise the Commission's authority, the ARC has allocated start-up funding for three projects involving North Carolina, Tennessee, Maryland, Pennsylvania, Virginia and West Virginia and the international markets of Canada, Great Britain and Germany.

Without the infrastructure of support from USTTA, and the state's ability to call upon USTTA for technical assistance and international connections, it is unlikely that the proposed ARC projects will be successful in meeting their expected outcomes.

States with limited resources, such as West Virginia, and those states who are suffering under the constraints of economic recession must have the support of USTTA to compete in the international tourism arena.

The proposed marketing strategy for USTTA touts the utilization of partnerships between the Federal government, the private sector, and the states and cities of our nation. We in West Virginia are keenly aware of the value of such partnerships. Without private sector and Federal partnerships, our tourism industry could not

have reached the level that it has today. Furthermore, without such partnerships, we cannot expand and grow into the lucrative international market.

While the promotions of the USTTA have benefited West Virginia, as in the 1989 Discover America campaign, it is the marketing expertise and established inroads that USTTA possesses which are of real value to our state's goals.

For example, in 1985, USTTA printed a regional brochure for Washington, DC; Virginia; Maryland; Delaware; and West Virginia in a multitude of languages. These brochures were then distributed by USTTA throughout Spain, France, Germany, Italy, Japan and other countries which used the languages. Given West Virginia's limited fiscal resources, such a project could not have been initiated, nor implemented without USTTA.

Although West Virginia is just beginning its entry into the international travel and tourism market, the predicted economic success of such an undertaking is enough to influence the support of West Virginia businesses and industries, state and local government leaders; community leaders and the citizens as a whole. In addition, our strategic marketing plans have won the approval of the Appalachian Regional Commission.

With the promotion of the Pittsburgh and Washington, D.C. ports of entry, in combination with the airports throughout West Virginia and our interstate highway system, we believe that USTTA can help us successfully attract a significant portion of the international tourism market, and, thus, positively influence the state's economy.

West Virginia is a beautiful state with myriad recreational and entertainment facilities as well as historical and cultural heritage sites. USTTA provides almost all of West Virginia's international marketing ventures since funding is so limited. Their offices throughout the world distribute our state's promotional literature and provide our marketing and sales staff with leads and follow-up.

Our neighbors, Kentucky, Maryland, Pennsylvania, South Carolina, Tennessee and Virginia have budgets ranging from \$28,000 to \$1 million directed solely at the international visitor. These states are able to promote themselves in Canada, the United Kingdom, Germany, Japan, France and other areas of western Europe on their own. We cannot attract foreign tourists unless entities such as USTTA can assist us.

West Virginia has realized and demonstrated the importance of both domestic and international tourism as it influences the evolving economy of a single state. We are evolving from a manufacturing-based state economy to a more varied one where we are being recognized as a recreational mecca by those who visit us. For an approximately \$3 million investment, west Virginians received almost \$2.5 billion in return.

I submit to you that the method of our success is applicable to the rest of the nation as well.

Mr. Chairman, I implore you to recognize international travel and tourism as an industry which is crucial to our nation's financial stability. I ask you to continue to support the projects and programs of USTTA in their efforts to facilitate this industry and assist states such as West Virginia.

Senator ROCKEFELLER. Thank you very much, John.

Now let me just get you to elaborate a little bit in explaining—when you thought about going up to Canada to get this going, what was—just take me through the process: that you contacted USTTA, how it was that they helped you, and the difference that they make.

Mr. BROWN. Well, the first thing that we did, of course, was we contacted your good offices, and we talked with Amy Berger on your staff. And Amy suggested that we get in touch with Bill Tolson in Canada. And we worked through USTTA's Toronto office for probably a period of 5 to 6 months. As you know, as you are obviously very aware, there is a lot of protocols involved in crossing an international boarder, even one as friendly as Canada. And there are a lot of details that needed to be put together, people that we needed to contact, special people in the tourism trade up there that we needed to have invited to events—all of those kinds of logistical details were handled by USTTA for us. And again, if it had not been for them, we would have had great difficulty in doing this.

I might also add that this was—and emphasize that this was a mission not only by a State government, but it was also, we were accompanied by 40 private sector tourism representatives who spent about 1 week to 10 days up there. And it really was quite a successful event. And we are going to build on it this year.

As a matter of fact, this year, in addition to West Virginia, we have joined with North Carolina and Tennessee. So, the three States will be going up in September. And USTTA will be intimately involved, obviously, again, in making that a successful visit for all of us.

Senator ROCKEFELLER. One of the things that I think is most exciting in tourism for West Virginia is the chance for us to attract folks from other countries. The WVVA radio station, in Wheeling, in fact, I have always felt was kind of our private sector marketing device because it reached into Canada very easily. And people would come down. And now it has become much more sophisticated.

You indicated there are about 20,000 people working in tourism in West Virginia on a daily basis?

Mr. BROWN. Well, actually, there are 40,000.

Senator ROCKEFELLER. 40,000—and I contrast that to the numbers, for example, who are working in coal mining. Most people would probably say well gee, probably half the population of the State.

Well, unfortunately, we are talking about 22,000. So that you are talking about an industry which employs almost twice as many people as the industry which most people associate with West Virginia.

Mr. BROWN. Absolutely.

Senator ROCKEFELLER. Exporting is so basic to West Virginia, there are only three other States that export greater—in terms of their gross State product—as does West Virginia. We are internationally, you know, interdependent. We depend upon other countries for our goods and for our welfare—far more than really, many of our people know.

So that by boosting tourism, it is boosting our trade balance of payments. And what you and I are trying to do is to get our people to understand that that is what we are talking about. That when you are dealing with other countries, you are talking about just goods that are as real value as the television set, or as an automobile. And that we have that unique opportunity in West Virginia. And that people do not always want to go see the Statue of Liberty, or the Washington Monument. They want to go out to Nevada and see the way folks live there. They want to come to West Virginia and see the way we live—the allure of our coal mines. People are fascinated by coal mines.

We are actually taking down temples and taking down company towns when these are enormous assets. Wheeling, WV, has 1,000 Victorian homes from the 1840's, 1850's, 1860's, and 1870's.

And all these treasures are there. And the private sector is catching on with that. You are working with that. So that the export business, in general, and the promotion of international tourists to come to West Virginia is incredibly important.

Can you just—so that I will not sound like I was making a speech—could you just indicate a couple of other ideas that you have, that you are working with, to attract folks from other parts of the world to West Virginia?

Mr. BROWN. Well, we have also been working with the Appalachian Regional Commission on four different tourism projects, cooperative projects with groups of States. And I try to remember these. I know that one of them is dealing with the German market, and we are dealing with Ohio, New York, and Pennsylvania. We have two programs, two cooperative ventures to the United Kingdom, with Tennessee, North Carolina, and Kentucky. And we have one to the German market, with Maryland.

One of the things that I think that that illustrates—and I want to give credit where it is due—I think we would be remiss if we did not note that the Appalachian Commission, through Senator Byrd's—largely through his efforts—was able to secure those funds.

But one of the things that I want to note for the committee is that while we are all very patriotic and—that is not the word, but I guess parochial—in our own States, we in this business recognize the absolute, essential nature of marketing on a regional basis. And if it was not for the people in Maryland, particularly, and people in North Carolina, since we do not have a port of entry, obviously, we depend upon them to do joint kinds of tourism efforts. And we do that.

These efforts involve the region. For example, in western Maryland, you have Antietam Battlefield. Well, you can take a 2-mile walk from Antietam, across a bridge into Shepardstown, WV, and you have walked back a century.

And the other interesting thing about that is—just a little lure here—is that all of the confederates are buried in what is now West Virginia. They were not allowed to be buried in Maryland.

So, we are beginning to develop with Maryland, for example, a cooperative tourism effort that begins at the Fairfax Stone in northeastern West Virginia, at the Maryland border, and runs all along there, through the eastern panhandle of West Virginia. And we have joint projects with ski areas, with bringing the ski train into Maryland, and bringing the people down to West Virginia and cooperative kinds of things like that.

And I just want you all to be aware that while, again, we are very parochial people and we love our States as individual States, we recognize the necessity, the absolute necessity of marketing on a regional basis. And we have made compacts, working through great organizations like TIA and USTTA to work together more closely so that we can bring the rest of the world the tourism products that we have in the United States.

Senator ROCKEFELLER. Just one final point, then I will turn it over to Senator Bryan—the USTTA is so important too, because if they do not have on their shelves, West Virginia in a package, along with the George Washington country, States that we share domain with, so to speak, we are not going to have as good a success. I mean USTTA is very important to us. Because what they put on that shelf, people come in to decide from Japan, or Germany, or Ireland—wherever it might be—where they want to go. They are not necessarily sure where they want to go, and they look at

a region, and that includes West Virginia. And they end up going to West Virginia because West Virginia was in that package. And if West Virginia had not been in that package they might—since we are not necessarily that well known yet—not make the decision to go there.

So, USTTA really helps us with that.

Mr. BROWN. Absolutely, particularly rural States like West Virginia where there is not a whole lot known outside of the region where we are. And just to emphasize that, we are in brochures in all of the areas where USTTA is located throughout the country. And if it was not for that, we would not be there. There would never be any tourists.

Now that we are getting the cooperative programs together it is going to help. But USTTA is the common link there has been historically to provide us with some kind of a presence overseas.

Senator ROCKEFELLER. Thank you, John.

Senator BRYAN.

Senator BRYAN. Thank you, Mr. Chairman.

Let me congratulate you, Mr. Brown for your efforts on behalf of your State.

Mr. BROWN. Thank you.

Senator BRYAN. And obviously the testimony which you have offered to us this morning which is insightful.

Let me just as you a couple of practical questions, if I may.

Mr. BROWN. Sure.

Senator BRYAN. Chairman Rockefeller and other members of this committee have been concerned about visitor facilitation and how we make the experience a more pleasant one for our foreign traveler.

What kind of feedback do you get—in other words, I am sure that people are delighted to be a part of your State; love coming and visiting—I am not talking so much about what they see, and their enchantment with the majestic beauty of your State, but in terms of the mechanical arrangements, the way in which not only West Virginia but we, in this country, handle our foreign visitors. What do you hear, and is there a theme, is there a consistent refrain that you hear that may be instructive? Because you are on the front line.

Mr. BROWN. Yes, sir, I think there are a number of things. But what comes to mind to me, particularly—and I think I am speaking for States that have not experienced the influx yet, in great numbers of foreign tourists—is a need by the States to have people trained in the customs, and trained in how to treat people from different countries.

We have learned a lot about Japanese customs in the last couple of years.

Senator BRYAN. But when we say customs, you are not talking now about American customs in terms of processing, you are talking about customs of nationalities—

Mr. BROWN. Meeting the needs, yes.

Senator BRYAN. OK.

Mr. BROWN. Meeting the needs of the foreign tourist.

If you go to Europe, and I have been to Europe a few times, they know how to treat Americans in most places that want to do busi-

ness with you. I think the people in the United States are the most hospitable people in the world. But I do not think they have the wherewithal right now, particularly in rural areas, to deal with the cultural and the custom kinds of needs that I think are necessary. That I would refer to an overused term, infrastructure, and in my remarks I mentioned that that is what USTTA could help us with, putting on regional seminars, or providing the ability to teach us that receive these visitors how to make them want to come back.

And a lot of times, it is just not anything more than just some simple courtesy kinds of things and some recognition factors. And then, those people feel as if they are wanted.

So, I think that is one major area that USTTA could help, particularly rural States, States away from the coasts, that do not get the volume of tourists yet.

Senator BRYAN. Mr. Brown, do I correctly conclude that that is an area that perhaps USTTA is not doing as much as they need to in terms of providing that kind of information?

Mr. BROWN. Well, I would not be critical of USTTA. I think with the grossly inadequate budget that they have, they have necessarily been concentrating on marketing efforts. But I would think, I would hope that if we get more of an emphasis on the international tourism market, that we would get down to some of the nuts and bolts that are really going to make this thing last over time.

Senator BRYAN. Well, on the suggestion that you make is not particular to West Virginia.

Mr. BROWN. Absolutely not.

Senator BRYAN. We are all trying to attract the foreign visitor. And if there are cultural sensitivities, particular things that we need to be sensitive to in receiving our foreign visitor, that kind of information generated at USTTA could be made available to various State tourism commissions.

And then I take it that you could follow on. You probably have something akin to what we have in Nevada, where you have kind of an annual meeting where you get your tourism people together. And that you could, in effect, relay the information which the State office has to local, private sector tourism activities so that they could be aware of it, get additional information, and at least—

Mr. BROWN. Yes, sir, we would not expect USTTA to go out and do the training. But I think to act as a conduit for the information to the States, I think it would be really a beneficial thing to do.

Senator BRYAN. One last question, because I know the chairman wants to move on to our other distinguished panelists, but any other specific suggestions? I think that is helpful. That is the kind of specifics that a lot of us are looking for. We generically agree. But you are out there meeting people, and getting a reaction to them. And that is something that is a very doable thing and not a big-budget item.

Anything else you think we could do?

Mr. BROWN. Well, I do not know whether or not this would be under the aegis of USTTA, but international signing is very important, also. And to the extent that we can have some impact, this committee or USTTA on another governmental agency—maybe the Department of Transportation or whatever—I think it is really important for the State, if we are going to ask people to come into

the State, to recognize what the international society, to use the international symbols to make it easier for people to recognize certain things.

So that would be——

Senator BRYAN. Are we talking about a highway signage now, or are we talking about signage within a particular community?

Mr. BROWN. I think it is more than highway signage. I think it is more than that—and again, that is something that would be a major, major project, obviously, that the States—but I think that we could, from whatever agency would give us, or whatever create the consistent signage, then we could make it filter down to the States, and to the counties, and the communities.

But I think that is another—if you are asking about nuts and bolts and specifics, I think again, it makes the tourism product user friendly, if people who do not speak our language necessarily can still understand where to go to the bathroom, or where to eat, or what is coming up.

Senator BRYAN. Well, that package could be put together and would have a generic content. So, you could extract from it what you thought was relevant in West Virginia in the particular international market that you are trying to attract.

Mr. Chairman, I thank you, and it is nice to have you with us, Mr. Brown. I appreciate your testimony.

Senator ROCKEFELLER. Thank you very much, John. I appreciate your coming, and it was very important to us.

Mr. BROWN. Thank you, Senator.

Senator ROCKEFELLER. Thanks a lot.

OK, our second panel will be Mr. Ned Book, who is president of the Travel Industry Association of America; Mr. Joe Shapiro, who is senior vice president of the Walt Disney Co., who I think, Joe, I last saw last May; and Brian Smith with Busch Entertainment Corp., St. Louis, MO.

So, we welcome you gentlemen. And Ned, we will start with you.

STATEMENT OF EDWARD R. BOOK, PRESIDENT, TRAVEL INDUSTRY ASSOCIATION OF AMERICA

Mr. BOOK. Thank you very much, Mr. Chairman.

Senator ROCKEFELLER. All of your statements are automatically entered into the record. So, do not feel that you have to do it all. [Laughter.]

Mr. BOOK. I hear your message. Thank you, sir.

We are very appreciative of your calling this hearing. And allow me, on behalf of the industry, to express our appreciation to you and your colleagues on this committee, Senator Bryan, Senator Burns, having some first-hand knowledge of your interest, and your dedication and your work. We appreciate your individual and collective efforts on behalf of the travel and tourism industry. You are marvelous champions for us, and we thank you for your efforts. We appreciate what you are doing with this hearing, and we know the bill is going to be successful. And we appreciate it.

I am not going to recite numbers for you. I think they have already been injected into the testimony by other speakers. But I do want to talk briefly about the economic impact and importance of the travel and tourism industry. It is very impressive. And I know

that all of you know it, and I know that you are familiar with those numbers.

However, our industry, as you also know, has felt the ill effects this past year of both domestic and international pressures and crisis. Clearly, the private sector was vividly reminded during this period that we cannot sit back and wait for business to walk in the door.

As Senator Burns alluded to in his comments, the GO USA coalition is an example of how the industry responded to the needs of the time. And I might say that USTTA was very helpful and instrumental in helping to form that coalition, and then to work with it on an ongoing basis.

However, as a nation, we are sitting back and waiting for the business to come in the door. In the global, tourism marketplace, our national Government is waiting for the world to beat a path to our shores. Despite the best efforts of this subcommittee and the U.S. Travel and Tourism Administration, which remains minimally funded, USTTA deserves the credit it has received for mounting a monumental effort with negligible resources.

But perhaps it is time to come to grips with the fact that USTTA cannot possibly fulfill its mandate with the budget it receives. The USA Marketing Council, a TIA group of 35 top marketing executives representing a broad cross-section of the travel industry, assembled earlier this year to examine how USTTA can best market our Nation.

Brian Smith, the former chairman of the Council is here today and will testify before you in a few minutes, and will provide a detailed outline of their proposal, which has been endorsed by the Government Affairs Council—on whose behalf I am testifying today, Mr. Chairman.

Allow me to provide an overview of their conclusions. First—and this will hardly surprise you—the United States does not sufficiently understand and appreciate the economic importance of international tourism. The USA Marketing Council second finding was, as I alluded to earlier, that USTTA is woefully underfunded for the mission that it has been assigned. And unfortunately, it does not appear likely, in view of present Government budget limitations, that these numbers will change substantially in the near term, despite the imposition last year of a so-called user fee. As you know, we as an association are opposed to this arbitrary and illogical tax.

The third finding of the USA Marketing Council was that a more optimum use of the Federal Government's tourism marketing resources could be achieved by a more focused, priority-targeting of the international markets with the most potential.

I note with interest that your bill, S. 680, Mr. Chairman, also directs USTTA to concentrate on the markets of greatest potential. What I think the Council has supplied is the how. Encouraging public and private partnerships, the USA Marketing Council believes, must be the cornerstone of USTTA's marketing strategy. Given its limited budget, USTTA should better utilize the marketing expertise and resources that the private sector has already developed.

This new arrangement for USTTA would maximize returns in prime markets, while maintaining a sufficient presence in mature markets.

The markets to which USTTA should redirect its focus are those in which there is great potential for substantial growth in tourism to the United States, but where little has yet been done to encourage that growth; or those markets where more targeted promotions to market segments promise a significant payoff.

Another important recommendation of the USA Marketing Council calls for the establishment of a new USTTA matching grant program that would allow nonprofit entities to receive financial assistance for approved tourism development projects. We believe this program will be particularly useful to States, regions, localities, that might otherwise lack the necessary resources to undertake meaningful market penetration.

I think you have just heard John Brown allude to the relationship between he and the other States in the George Washington region, and how they could utilize this kind of a USTTA relationship.

If I may, I would like to offer an additional thought, emanating from my service on the Government Affairs Council, Mr. Chairman. And that is that USTTA is the Federal voice of the travel industry, yet it is dwarfed by other agencies with greater visibility in the policy arena.

This much change as we become increasingly a global economy—and no industry is more global than tourism. Great harm can come from indifference toward, or ignorance of travel and tourism. This is not an area where the travel industry can fend for itself. USTTA's policy role must be strengthened.

The TIA Government Affairs Council were both recently directly involved in a situation that demonstrates dramatically the need to keep the interest of travel and tourism uppermost in the formulation and implementation of public policy.

During the peak travel season in Brazil, when thousands of Brazilians want to travel to the United States, the United States consulate in San Paulo, was able to process only 500 of 2,000 daily visa application requests. There was a real and immediate danger of seats being sold but not filled on flights from Brazil to the United States.

Fortunately, after being approached by USTTA, the Government Affairs Council and the Brazilian Association of Travel Agents, the Office of Consular Affairs at the State Department has taken emergency action to increase staffing at the San Paulo consulate, and improved the situation substantially. This single incident does raise serious questions, however, about the allocation of resources to such visa processing activities and the extent to which senior officials at the State Department and other Government agencies realize that their decisions and policies may damage our Nation's largest export.

We suggest this incident also confirms that USTTA must be encouraged, and authorized to play a lead role in the formulation and evaluation of many intergovernmental and interagency actions.

Mr. Chairman, the proposals developed by the USA Marketing Council, with the support of both TIA and the Government Affairs Council capitalize on our past successes. But more importantly

take the critical next steps into the future. It is with this realization that the agency must redirect its resources, concentrate on international markets of highest potential; work in tandem with the private sector and State and local governments; and enhance its visibility and involvement in other Government policymaking arenas that have great bearing on travel and tourism.

Then, USTTA potential can begin to be fulfilled.

Mr. Chairman, again, I appreciate this opportunity to be with you today. And I will be happy to answer any questions you may have.

[The prepared statement of Mr. Book follows:]

PREPARED STATEMENT OF EDWARD R. BOOK

Thank you Mr. Chairman and members of the Subcommittee. It is indeed a pleasure to be here with you again this afternoon. Our industry knows that you and your Subcommittee colleagues are aware of the importance of tourism to this country as a vital component of international trade, and that you have long been committed to enhancing our ability to compete in the global tourism marketplace. We welcome this hearing as a major step in that direction.

I am Edward R. Book and I am president of the Travel Industry Association of America, or TIA. I also serve as vice chairman of the Travel and Tourism Government Affairs Council. The Council, an affiliate of TIA, is comprised of thirty-five national organizations representing nearly every segment of the travel and tourism industry, including transportation, accommodations, food service, travel agents, tour sales, recreation and attractions, as well as state and local travel and tourism officials. It is on behalf of the Council that I appear before you today.

The economic impact and importance of the travel and tourism industry is indeed impressive. This industry is our nation's largest export, second largest employer and third largest retail industry. Travel and tourism expenditures within the United States amounted to more than \$327 billion in 1990, or about 6.7 percent of our gross national product.

In addition, travel and tourism spending in the United States provided about 5.8 million jobs and nearly \$83.5 billion in wages and salaries during 1990. Travel and tourism is the first, second or third largest employer in 37 states.

Our industry has also proven itself to be a dependable source of abundant job opportunities for minority groups that have traditionally found it more difficult than others to find jobs. The industry employs 997,000 blacks (eleven percent more than the national average for all employment), 786,000 jobs for Hispanic-Americans (twenty-eight percent more than the national average), nearly 4.6 million jobs for women (eighteen percent more than the national average), and nearly four million jobs for youths, 16 to 24 years of age.

Tax revenue generated from travel and tourism totaled in 1990 approximately \$43.5 billion for federal, state and local taxes combined.

A significant part of travel and tourism's economic impact in the United States comes from international visitors. In 1990, these visitors numbered nearly forty million, up nearly twelve percent from the previous year. Their expenditures for United States goods and services, including transportation, came to approximately \$52.8 billion. This made travel and tourism the country's largest export, surpassing agriculture, computers, automobiles and all other exports as an earner of foreign exchange.

And increasingly, travel and tourism has given the United States something that is increasingly rare in other sectors of the economy: a trade surplus. In 1990, international travelers to our country spent \$4.7 billion more here than did Americans traveling abroad.

But, Mr. Chairman, despite all this good news, our industry has felt the ill effects this past year of both domestic and international pressures and crises. I am sure the members of this Subcommittee realize that our industry has had to combat the troika of the gulf war, fear of terrorism and the recession with its resultant drop in incomes and rise in unemployment.

The war was, thankfully, brief, yet its residual effect is still affecting our industry. The Air Transport Association reports, for example, that 1990 was the worst year ever for the aviation industry, with losses of over \$4 billion, and another \$2 billion in losses in the first quarter of this year. Although air travel is coming back, this is only after the collapse of one major airline, and the bankruptcy of four others.

The industry is going to great lengths to entice travelers back on the "road." Cruise ships are offering discounts of up to 50 percent. Hotels are offering markedly reduced room rates. And airlines have been offering dramatic markdowns on many flights.

It is also appropriate to acknowledge that during the darkest days for our industry last winter, USTTA was invaluable in mobilizing the industry and gaining the help and cooperation of the highest government officials, including the President, to reassure the American public and convince them that travel remained safe and that they should not change their life styles because of a madman in the Persian Gulf.

These circumstances which I have just described have forced our industry to "bear down" and be more aggressive marketers. Clearly, the private sector was vividly reminded during this period that we cannot sit back and wait for business to walk in the door. Yet, as a nation, that is essentially what we are doing, in the global tourism marketplace our national government is waiting for the world to beat a path to our shores.

Despite the best efforts of this Subcommittee, the U.S. Travel and Tourism Administration (USTTA) remains minimally funded. USTTA deserves the credit it has received for mounting a monumental effort with negligible resources. But perhaps it is time to come to grips with the fact that USTTA cannot possibly fulfill its mandate with the budget it receives. It is increasingly obvious that USTTA cannot realistically be expected to market the U.S. tourism product around the world with a \$19 million budget for FY 1991. USTTA is able to accomplish impressive feats, but they just cannot compete with nations which spend that much in individual countries alone. Australia, for example, recently announced a tourism marketing budget of \$50 million for just the United States—an increase of 50 percent.

The USA Marketing Council, a group of 35 top marketing executives representing a broad cross-section of the travel industry, was organized by TIA in 1983 to offer private sector input to USTTA's marketing strategy. Its first product was a recommended marketing plan for the United States which was presented to the Commerce Department in 1984 and was updated in 1989. Many of the Council's recommendations were implemented by USTTA and were widely credited with achieving positive results. I'm sure it will not surprise you that this group has repeatedly recommended increased funding for the agency, while trying to offer constructive counsel on what could be done with meager resources.

This group assembled again earlier this year to confront this dilemma head-on. Their specific recommendations have earlier been submitted to this Subcommittee, and Brian Smith, the former chairman of the Council, is scheduled to testify before you this afternoon.

But allow me to provide an overview of their conclusions.

First, the United States does not sufficiently understand and appreciate the economic importance of international tourism. Mr. Chairman, I realize that by coming here today, we are preaching to the choir, but there are others in Congress who do not understand what travel and tourism contributes to the economy of our nation and the quality of life of so many of its citizens. This, of course, means that they do not understand the essential role of our national government in the global competition for tourism. This was evidenced last year when the bill you introduced, the Tourism Policy and Export Promotion Act of 1990, to reauthorize USTTA, passed the Senate, yet stalled in the House Energy and Commerce Committee.

The USA Marketing Council's second finding was, as I alluded to earlier, that USTTA is woefully under-funded for the mission it has been assigned. Our nation's official national tourism office ranks 28th in total spending by national government tourism organizations. And unfortunately, it does not appear likely in view of present government budget limitations, that these numbers will change anytime soon, despite the imposition last year of a so-called "user fee" based upon the number of international arrivals who are not U.S. citizens.

Let us also take this opportunity to emphasize that this so-called "fee" is in reality yet another tax; it discriminates against one segment of the industry, the air and cruise lines, which must in reality now pay the bill for USTTA directly out of their own pockets. The Government Affairs Council was very much opposed to the imposition of this unfair and unjustified fee, and we support its repeal. The tourist "passing through town" has long been an easy target for tax collectors, hunting for ways to alleviate growing budget deficits, without incurring the wrath of voters.

The third finding of the USA Marketing Council was that a more optimum use of the federal government's tourism marketing resources could be achieved by more focused priority targeting of the international markets with the most potential. I note with interest that your bill, S. 680, Mr. Chairman, also directs USTTA to concentrate on the markets of greatest potential. What I think the Council has supplied is the "how."

Encouraging public-private partnerships, the USA Marketing Council believes, must be the cornerstone of USTTA's marketing strategy. Given its limited budget, USTTA should better utilize the marketing expertise and resources that the private sector has already developed. This new arrangement for USTTA would maximize returns in prime markets, while maintaining a presence in mature markets.

The markets to which USTTA should redirect its focus are those in which there is a great potential for substantial growth in tourists to the United States but where little has yet been done to encourage that growth, or those markets where more targeted promotions to market segments promise a significant payoff.

In established, or mature markets, where the United States market share is large and unlikely to change, where the private sector of the United States is well represented, USTTA maintenance offices would continue, as they do now, to give technical advice and assistance to American companies and destinations, especially to would-be "new entrants" into those mature markets.

Another important recommendation of the USA Marketing Council calls for the establishment of a new USTTA matching grant program that would allow non-profit entities to receive financial assistance for approved tourism development projects. We believe this program will be particularly useful to states and localities that might otherwise lack the necessary resources to undertake meaningful market penetration. Moreover, this program holds unmistakable appeal for some of your colleagues in the House who seek through international tourism, to improve the economic fortunes of many of those same states and localities.

If I may I would like to offer an additional thought emanating from my service on the Government Affairs Council. It is imperative that USTTA play a greater role in the federal government's policymaking machinery. Multilateral and bilateral trade agreements and treaties are being negotiated daily which only marginally address the needs and concerns of the travel industry, if at all. Decisions and policies pertaining to the facilitation of international travel through improved visa application procedures, more "user friendly" customs and immigration inspections, and an array of issues pertaining to our transportation infrastructure—these all have a great bearing on the state of travel and tourism and yet too often travel and tourism has no voice within the councils of government. USTTA is the federal voice of the travel industry, yet it is dwarfed by other agencies with greater visibility in the policy arena. This must change. As we become increasingly a global economy, and no industry is more global than tourism, great harm can come from indifference toward, or ignorance of travel and tourism. This is not an area where the travel industry can fend for itself. USTTA's policy role must be strengthened.

The Government Affairs Council was recently directly involved in a situation that demonstrates dramatically the need to keep the interests of travel and tourism uppermost in the formulation and implementation of public policy. During the peak vacation season in Brazil, when thousands of Brazilians want to travel to the United States, the United States Consulate in Sao Paulo reduced its staff and was able to process only 500 of the 2000 daily visa applications it received. There was a real and immediate danger of seats being sold but not filled on flights from Brazil to the United States. Fortunately, after being approached by USTTA, the Government Affairs Council and the Brazilian Association of Travel Agencies, the Office of Consular Affairs at the State Department has been able to take emergency action to increase staffing at the Sao Paulo consulate and improve the situation substantially. This single incident does raise serious questions, however, about the allocation of resources to such visa processing activities, and the extent to which senior officials at the State Department (and other government agencies) realize that their decisions and policies may have a direct and significant impact on our nation's largest export. We suggest this incident also confirms that USTTA must be encouraged and authorized to play a lead role in the formulation and evaluation of many intergovernmental and interagency actions.

By sharpening its marketing focus and capitalizing to a greater degree on the resources of the industry, and perhaps with some restructuring to give greater prominence to its policy role, we believe USTTA's attention to the tourism-related activities of other agencies will be expanded and its capacity to be a more significant participant in such policy deliberations will be enhanced. At the same time, its ability to mobilize and represent the industry during such crises as arose last winter will be similarly enhanced.

Mr. Chairman, the proposals developed by the USA Marketing Council, with the support of both TIA and Government Affairs Council, capitalize on our past successes, but more importantly, take the critical next steps into the future. It is with this realization—that the agency must redirect its resources, concentrate on international markets of highest potential, work in tandem with the private sector and state and local governments, and enhance its visibility and involvement in other govern-

ment policy-making arenas that have great bearing on travel and tourism—that USTTA's potential can begin to be fulfilled.

Thank you, Mr. Chairman, and I will be happy to answer any questions you may have.

Senator ROCKEFELLER. Thank you, Mr. Book.

Joe Shapiro, we would be delighted to hear from you. Actually, I should say, Joe, that as I think I have told you before, I was camp counselor to Michael Eisner. And I have never really been able to prove that. And I am now in a position to announce that I can indeed prove it.

Over this last July 4 weekend, I was going through some old scrapbooks. And I found a picture that I took of him when he was a counselor. And I am sure that California will be waiting to see that picture. [Laughter.]

Mr. SHAPIRO. I think that the negative might be of significant value, actually. [Laughter.]

Maybe we can talk about that privately. [Laughter.]

Senator ROCKEFELLER. We welcome your testimony. In Business Week, I saw the comment—I think it was this week—that domestic travel to Disney World in Orlando is down, but it is being kept at a net, even level by international travel.

I should have asked that after you have given your testimony. But if that is true, it is a fascinating fact. I have just always assumed that could never happen with Disney World.

Mr. SHAPIRO. Well, it is correct. In 1990, our fiscal year 1990, foreign tourism at Walt Disney World was 18.5 percent of our guests. And it has risen to 20.1 percent of the guests for the period thus far in the fiscal year. And actually, that is an estimate. We are very confident that that will be the final number this year. So that is quite an increase in Orlando. Senator ROCKEFELLER. Good, please proceed.

STATEMENT OF JOE SHAPIRO, SENIOR VICE PRESIDENT, THE WALT DISNEY CO.

Mr. SHAPIRO. OK, I will skip the statistics as the prior speaker did, in the interest of time. Except to mention one thing—which will be a constant theme in my testimony.

When I get the record to correct it, I will note that foreign spending was \$53 billion, not the \$44 billion I had been studying for the first 6 months of 1991, about 1990. And I think that it has been a problem consistently in this area, that we do not get timely and accurate data.

Having said that, I will skip all of the data except to say that in summary, they clearly demonstrate—as does the prior testimony—that the economic significance of this industry is such that it is appropriate for the public sector to try to assist the private sector in this area of economic activity.

The public sector cannot do the work by itself, and it should not try to do so. That is not the system in the United States of America. However, there are significant roles for the Commerce Department and the USTTA to play. And I think this legislation, S. 680, does a very good job of recognizing them.

In addition, Mr. Chairman, I am really pleased that you, and Senator Hollings, Senator Bryan, Senator Burns, Senator Pressler,

and so many other people have recognized this and introduced this legislation.

In our system, in this country, if the Federal Government develops and maintains a coherent commercial policy, it is completely reasonable to ask the industry concerned to do its share of the spending.

I think this legislation is a strong step in the proper direction. And I do not think this industry needs its marketing expense deferred by the Federal budget. We can handle that by ourselves.

But it is very important for the Federal Government to engage in broad-based development activities, and also to work with other interested parties to coordinate activities. In addition, the public and private sectors would each be well-served if accurate and timely data were centrally collected and analyzed. Activities of this type could lead to better integrated policies in each of the public and private sectors.

As a private sector representative, I would like to see the USTTA devote more of its limited resources to the timely collection and analysis of data. As I said earlier, historically we are an industry that has been short of such data. In fact, I noted with interest that one of the findings in the legislation had to rely on 1988 statistics.

Again, earlier—in fact, I read about it in *Business Week* in the same article you are talking about—the estimate of \$53 billion for foreign expenditures in this country in 1990 is not only 6 months into 1991, that is a 20-percent increase from the prior estimate we had all been dealing with.

With all respect, that is an intolerable delta. We cannot have a spread between actual and estimate of 20 percent and make reasonable decisions.

Whether one is working in the public sector or the private sector, one needs better data and more timely data, and more thorough analysis than that.

I think that the analyses and reports that the authors have provided for in section 4, section 5, and section 10 of S. 680 are appropriate functions for the Federal Government.

We get some of our statistics from private sector groups and private companies. But only the Federal Government has the expertise and official stature necessary to really do the work and make the product credible.

I agree with other people who have testified that the shift represented by section 7 of the bill is an intelligent approach toward optimizing the use of limited resources. Developing markets with great potential is a much better way to go than trying to do direct marketing.

Moving in this direction, and in the direction which the USA Marketing Council proposes, really lets each participant in the program do the thing it can do best.

With respect to funding, I recognize that we all live in difficult economic times, and that budgetary restraint is necessary in all areas. However, I believe that the funding sought by this legislation is modest in absolute terms, and a real bargain when it is compared to the economic benefit it could reasonably be expected to generate.

People have spoken about national economic efforts. And I would like to spend a little bit more time on that. We spend about 1.3 percent in the United States of what Italy spends. That is in absolute terms.

On a per capita basis, we spend one-third of 1 percent of what the Italians spend on tourism.

Senator ROCKEFELLER. I mean that is every, marketing, everything. What the Federal Government spends in Italy?

Mr. SHAPIRO. No, that is Italian Government expenditures, compared to U.S. Government expenditures.

Senator ROCKEFELLER. I see.

Mr. SHAPIRO. Our ranking of 56th was referred to by an earlier speaker. And actually, it is probably lower than that. Because several countries, including Mexico, France, and Germany, which could reasonably be expected to spend more—in fact we know they spend more—simply do not report their spending.

If we could obtain a complete set of spending data for the European Community, the comparison between their collective effort as we approach Europe 1992, and our national effort, would be a staggering statistic. If we are one-third of 1 percent of Italy, imagine what we are compared to the aggregate of the European Community.

On the other hand, one ought not let comparisons like that take us too far. Many of the members of the European Community have national commercial policies which routinely involve massive subsidies for their industries. In the aerospace industry, which is another major contributor to our export picture in the United States of America, the example of the massively subsidized airbus consortium leaps to mind.

Personally, I do not think that those forms of subsidies are fair competition. And I would like to see them restrained. But I would not suggest that our country get into the business of subsidizing aerospace, or travel or tourism, or any American industry on anything approaching the scale of the airbus experience.

That is because I do not think sound policy has to be based on subsidy. But coordination is absolutely critical. You have just been told the story about visas in Brazil happening at a time of peak travel when our airlines had cranked up to fill these seats and people could not get visas.

I think that might have been avoided if the USTTA had been in a better position to assimilate the relevant information, some of which is not obvious—unless you work in the business. Right now it is winter time in Brazil. People are eager to come to Florida for the weather.

If they were—or Montana, perhaps, for the weather—excuse me, I misspoke. [Laughter.]

We hope that some of them stop off in Florida on their way back from West Virginia and Nevada, Montana. We would like to get a few of them. [Laughter.]

What can I say—and South Dakota.

Seriously, if the USTTA had been in a better position to react promptly and assimilate the data, the State Department might have been able to make its legitimate cost-cutting efforts at a dif-

ferent time or a different location and the fiasco to which the gentleman on my right just referred, could have been avoided.

As it happens, I appear here today during a very difficult period for the travel and tourism industry. The combined effects of the recession and the war were devastating for the industry and in about 2 years, when I get the statistics, I will be able to give you a quantitative overview of what happened on an aggregate, national basis.

I do not have to wait 2 years to tell you how difficult it has been for our company. For the 6 months ended March 31, 1991, operating income in our theme parks and resorts business declined 25 percent from the prior year's comparable period.

However, even if I were sitting here during the best of times for travel and tourism, I would still be endorsing S. 680. A businessperson has to manage in good times and bad. And he or she will always be assisted if he or she is functioning in a system that has a coherent and integrated commercial policy which makes accurate data and analyses available on a timely basis.

In closing, Mr. Chairman, I would like to thank you for the opportunity to testify before this subcommittee. We at the Walt Disney Co. appreciate your interest, the interest of your colleagues, and your efforts on behalf of our industry. Thank you very much. I would be happy to answer any questions you have.

[The prepared statement of Mr. Shapiro follows:]

PREPARED STATEMENT OF JOE SHAPIRO

My name is Joe Shapiro. I am Senior Vice President of the Walt Disney Company. I would like to thank the Chairman and the Members of the Subcommittee for the opportunity to appear before you today.

Disney supports S. 680, the Tourism Policy and Export Promotion Act of 1991. I am very pleased, Mr. Chairman, that you, Senator Hollings and so many other senators have seen fit to introduce legislation which recognizes the contribution that travel and tourism make to the economy of the United States and seeks to sustain and increase United States export earnings from this industry.

The importance of the travel and tourism industry to our economy is demonstrated by the following statistics provided by the Travel and Tourism Government Affairs Council.

1. Travel and tourism is our largest export, our second largest employer and our third largest retail industry.
2. Travel and tourism expenditures in the United States amount to over \$350 billion annually, or about 6.7 percent of our gross national product.
3. International visitors spent about \$44 billion last year in the United States.
4. The travel and tourism industry employs about six million people in the United States.
5. The travel and tourism industry is the first, second or third largest employer in 37 out of our 50 states.
6. In 1989, travel and tourism generated approximately \$43 billion in federal, state and local tax revenue.

Accordingly, I believe it is appropriate for the public sector to try to assist the private sector in this critical area of economic activity. The public sector cannot do the work by itself, nor should it try to do so. That is not the system in this country. However, there are significant roles for the Commerce Department and the United States Trade and Tourism Administration to play, and I think S. 680 does a good job of recognizing these roles.

In our system, if the federal government develops and maintains a coherent commercial policy, it is quite reasonable to ask the industry to do its share of the spending. I think that S. 680 is a strong step in the proper direction toward the development of sound public policy with respect to the travel and tourism industry, and I hope you will stay the course. The industry does not need a large portion of its meeting expenses paid for by the federal government. We can handle that by ourselves. However, it is important for the federal government to engage in broad based development activities and also to work with other interested parties to coordinate

activities. In addition, the public and private sectors would each be well served if accurate and timely data were centrally collected and analyzed. Activities of this type could lead to better integrated policies in each of the public and private sectors.

As a private sector representative, I would like to see USTTA devote more of its resources to the timely collection and analysis of data. Historically, this is an industry which has had to deal with stale information. In fact, I noticed that one of the findings in S. 680 referred to 1988 statistics. Whether one works in the public sector trying to formulate commercial policy or in the private sector trying to make a business decision, it is a disadvantage when one has to deal with information which is that old.

The analyses and reports provided for in sections 4, 5 and 10 of S. 680 are appropriate actions for the federal government. It has the expertise and official stature necessary to do the work and make the product credible.

On another front, I think S. 680 takes an intelligent approach toward optimizing the use of USTTA's limited resources. Section 7 shifts the agency's focus from marketing to tourism trade development in the markets with the greatest potential for growth. The U.S.A. Marketing Council has made a similar but somewhat more detailed proposal which would closely involve USTTA with state, city, regional and private sector marketing programs. I endorse this proposal. I believe that USTTA's resources will be better spent if they are directed at the broad issue of development while at the same time the agency is able to benefit by working closely with other groups which have additional resources and specific expertise in marketing. This proposal would let each participant in the program concentrate on what it can do best.

I recognize that we live in difficult economic times and that budgetary restraint is necessary in all areas. However, I believe that the funding sought by the legislation is modest in absolute terms and a real bargain when it is compared to the economic benefit it could generate.

It may be helpful to put the funding request in context. The Travel and Tourism Government Affairs Council reported in January 1990—there's some more stale information—that the United States ranked about 28th in total spending by national government tourist organizations. We are spending about one-third of 1 percent of what Italy spends. That's in absolute terms. On a per capita basis, we spend about one-third of 1 percent of what Italy spends and rank 56th. In addition to being dated, the rankings are not precise because a number of countries which could reasonably be expected to rank higher than the United States (including such countries as Mexico, France and Germany) do not report their expenditures. By the way, if we could obtain a complete set of data for the members of the European Community, the comparison between their collective effort and our national effort would be staggering.

However, we should not let comparisons like that take us too far. Many of the members of the European Community have national commercial policies which involve massive subsidies for their industries. In the aerospace industry, a key contributor to our exports, the example of the massively subsidized Airbus consortium leaps to mind. I do not think those subsidies are a fair form of competition, and I would like to see such forms of unfair competition restrained, but I would not suggest that our country get into the business of subsidizing our industries on anything approaching that scale.

Sound policy need not be based on subsidies, but coordination is critical. We recently suffered through a reasonably stark example of what can happen if efforts are not coordinated. At the same time that the USTTA was devoting some of its limited marketing resources to encouraging tourism to the United States from Brazil, the United States Consulate in Sao Paulo engaged in a reduction in force of personnel in the department where visa applications are processed. There is never a time when making it hard to get a visa is going to encourage people to visit your country, but the nightmare here is that the reduction in force took place during the peak travel period from South America. I do not mean to suggest that the State Department ought to destroy its budget in the pursuit of travel and tourism, but I believe that if USTTA had been in a better position to assimilate the relevant information and advise the State Department of the consequences of this reduction in force, the State Department might have been able to shift the time or location of its cost cutting effort in some manner that would suit its purposes as well as the public and private sectors' interests in our travel and tourism industry.

As it happens, I appear before you during a very difficult period for the travel and tourism industry. The combined effects of the recession and the war were devastating for the industry, and, in about two years when I get the statistics, I will be able to give you a qualitative overview of the aggregate national impacts. I do not have to wait two years to tell you how difficult it has been for Disney. For the

six months ended March 31, 1991, operating income in our theme parks and resorts business declined about 25 percent from the prior year's comparable period. However, even if I were sitting here during the best of times for travel and tourism, I would still be endorsing S. 680. A business person has to manage in good times and bad, and he or she will always be assisted if he or she is functioning in a system that has a coherent and integrated commercial policy which makes accurate data and analyses available on a timely basis.

In closing, Mr. Chairman, I would like to thank you for the opportunity to testify before the Subcommittee. We at The Walt Disney Company appreciate your interest and your efforts on behalf of the travel and tourism industry.

Senator ROCKEFELLER. Thank you, Mr. Shapiro, very much.

We have—I am embarrassed to say—another vote, final passage of a bill. We cannot manipulate it so that one of us goes and votes and the other keeps going, because there is not enough time. We are too far. So, we will have to take another—probably 8- or 9-minute recess. And then we will come back. We have a number of questions. And we do apologize.

So, we will stand in recess for another 8 or 9 minutes.

[A brief recess was taken.]

Senator ROCKEFELLER. Gentlemen, I apologize that I was a little bit longer than I had anticipated. Brian Smith, you are at the bat.

STATEMENT OF BRIAN SMITH, BUSCH ENTERTAINMENT CORP., ST. LOUIS, MO

Mr. SMITH. Thank you. Good afternoon, Mr. Chairman and members of the committee. It is a pleasure and an honor to be here to testify before you on a subject of so much importance to our company, our industry and, really, our Nation.

My name is Brian Smith, I am with Busch Entertainment Corp. and a member and past chairman of the U.S.A. Marketing Council. It is on behalf of the Marketing Council that I appear before you today.

As Mr. Book indicated earlier, the Marketing Council is part of the Travel Industry Association of America and is comprised of 35 senior marketing executives from throughout the travel and tourism industry—some of the finest marketing talent in the Nation. Most of them have known and worked with U.S. Travel and Tourism Administration for many years.

Our industry knows and appreciates, Mr. Chairman, that you and your subcommittee colleagues have long realized what international tourism means, and could mean, to our Nation. We also know and appreciate that you and your subcommittee have faithfully and forcefully advocated substantially greater funding for USTTA to enable the United States to fulfill its rich international tourism potential.

It seems clear, however that we are at the crossroads in terms of the future of USTTA and its programs. And we commend the subcommittee for taking the initiative to reexamine our assumptions and our strategies. In an effort to be useful to this effort, the U.S.A. Marketing Council has also examined the question of how to improve the competitiveness of the United States in the international tourism market.

We had quickly agreed on one basic premise: that the USTTA should focus its attention on what it can do uniquely well that we as an industry, and particularly the private sector, cannot do for

ourselves, particularly in the arena of public policy and government to government international trade negotiations.

The cornerstone of USTTA's marketing strategy should be to foster a partnership between the Federal Government, the private sector, and the cities, States, and regions of the Nation. USTTA should place the majority of its promotional resources in markets where potential for business development is high, particularly where little has yet been done. In the larger, mature markets, where the United States has a dominant share of the long-haul market, the U.S. private sector interests are generally well represented and with the support of a small country maintenance office should be able to maintain and achieve incremental growth in the market. Government initiative and development should focus on markets of opportunity.

We believe there should be two principal divisions at USTTA: Tourism Trade Development and Policy And Planning. The Under Secretary of Commerce for Travel and Tourism should continue to be appointed by the President and serve as the head of USTTA. In addition to overall management of the agency, the Under Secretary should be primarily responsible for policy and planning functions. A career USTTA employee should manage the day-to-day operations of the agency.

At the international level, the Marketing Council believes that USTTA should operate through three regional offices: one for Europe and Africa; another for Asia and the Pacific; and a third for North and South America. These regional offices would centralize support functions for all country managers in the region, thus enabling country offices to remain small, or even be organized on a contract basis.

Every year, requests for new market development proposals should be sent to all countries, Visit USA Committees, foreign commercial service, USTTA country managers, USTTA regional offices, and the U.S. travel industry. Proposals would then be developed and returned to USTTA which describe and assess a suggested market's growth potential and outline a proposed advertising and public relations strategy for that market.

Proposals would be received for emerging markets, which can be defined in several ways: a country with great potential for substantial growth in tourists, or a market where we can observe recent increases in per capita income and demonstrated interest in U.S.A. travel, but where little has yet been done to encourage growth.

An emerging market can also be defined as a generally mature market in terms of current generation of visitors but where a particular niche or targeted promotion could yield greater results. When programs are selected, USTTA should announce its plans to launch a major program to the industry, so the industry can support the overall campaign with its own efforts.

It is likely that some States, cities, or regions which would be involved in such market development programs, because of limited resources, will choose not to participate. To assist those who need financial support, the U.S.A. Marketing Council recommends the establishment of a modest matching grant program to be administered by USTTA. Therefore, concurrently with USTTA's announcement of its market development plans, the agency would also invite

grant applications from all cities, States, and regions, as well as from other appropriate nonprofit entities for projects and activities in support of the new market development program.

We realize that some of these suggestions are new and unproven, and represent departures from current USITTA programs and strategies. However, we believe that this concept of USITTA leading a strike force, if you will, or, as Under Secretary Keller described, a catalyst, into areas of the world which promise to develop new tourism business for the United States, seems to be a truly sound use of precious Government resources, with the probability of impressive and measurable gains.

Accordingly, we strongly recommend that these new market development programs be clearly and thoroughly evaluated after they are concluded. Clear and measurable assessment criteria should be established as part of the new market development program. Programs should be monitored, with the findings reported to Congress. Expansion of such focused promotional efforts should certainly be dependent upon positive results and available resources.

Finally, Mr. Chairman, as you well know, the level of Government support for policies to facilitate international travel to our shores and for marketing the United States as a preferred destination have been chronically disappointing. But with a fresh start and bold innovative programs, the U.S.A. Marketing Council believes that a recharged and more focused USITTA can measurably increase the number of international visitors to our great Nation.

Thank you, Mr. Chairman, and I would be happy to answer any questions.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF BRIAN SMITH

Good afternoon, Mr. Chairman, and members of the Committee. It is a pleasure and an honor for me to be able to testify before you on a subject of such vital concern to my company, my industry and, indeed, the nation.

My name is Brian D. Smith. I am with the Busch Entertainment Corporation and a member and past chairman of the USA Marketing Council. It is on behalf of the Marketing Council that I appear before you today, so I would first like to explain what this group is and why it is so interested in the subject of this bearing.

The USA Marketing Council is part of the Travel Industry Association of America and is comprised of thirty-five senior marketing executives from throughout the travel and tourism industry. A list of the Council's members is attached to my submitted testimony. We believe that they represent some of the finest marketing talent in the nation, with unique and diverse expertise in the international marketing of this country as a destination for international visitors. Most of them have known and worked with the U.S. Travel and Tourism Administration (USITTA) for many years.

The USA Marketing Council, and its predecessor, the International Marketing Plan Development Committee, have twice within the past decade conducted year-long, comprehensive analyses of our nation's international travel and tourism marketing efforts. Those two studies, which were published in 1984 and in 1989, produced a number of specific recommendations from the private sector which were submitted to the Secretary of Commerce and have been instrumental in shaping many of the programs and strategies of USITTA. We would be happy to provide copies of these two reports to the Subcommittee if that would be helpful. Although the two reports have different points of emphasis, there is a basic continuity between them, a continuity that we believe is reflected in many of our recommendations here today.

The broadest and most significant of these continuing themes are (1) that the United States does not sufficiently understand and appreciate the economic importance of international tourism, (2) that USITTA, as the nation's official national tourism office, is woefully underfunded for the mission assigned it, and (3) that more

optimum use of the Federal government's tourism marketing resources could be achieved by priority targeting of prime international markets.

Our industry knows and appreciates, Mr. Chairman, that you and your subcommittee colleagues have long realized what international tourism means and could mean to our nation. And we also know and appreciate that you and your Subcommittee have faithfully and forcefully advocated substantially greater funding for USTTA to enable the United States to fulfill its rich international tourism potential. So we see no need at this time to retrace the arguments on those two points.

It seems clear that we are at a crossroads in terms of the future of our government's international tourism marketing agency and its programs. After ten years, it seems opportune to reexamine the National Tourism Policy Act of 1981. After a decade of continuous, arduous and, for the most part, unsuccessful efforts by the industry and many in Congress to justify substantially increased resources for USTTA, it is time to reexamine our assumptions and our strategies. We commend the Subcommittee for taking the initiative in this regard.

Last year, the Senate passed unanimously the Tourism Policy and Export Promotion Act of 1990, which had originated in this subcommittee, to re-authorize USTTA and sharpen the focus of its mission with regard to international trade. As you know so well, the entire travel and tourism industry strongly supported this legislation, but it was not reported out of the Energy and Commerce Committee in the House of Representatives before the 101st Congress adjourned. Following those events, the USA Marketing Council decided to revisit for the third time the question of how to improve the competitiveness of the United States in the international tourism market. We quickly agreed on one basic premise: that USTTA should focus its attention on what it can do uniquely well that we as an industry cannot do for ourselves.

The balance of my testimony will explain the assumptions, conclusions and recommendations that were agreed upon by the Council at its meetings. They fall into two basic categories: (1) the structure and administration of USTTA, and (2) international marketing strategies.

Let me initially describe three fundamental assumptions that underlie our conclusions and recommendations. First, we believe it is unlikely in the short term that USTTA will receive that substantially higher level of funding that virtually everyone in the industry would agree is needed for it adequately to market the United States around the world. We understand the stringent budget restrictions under which the Federal government must function over the next several years. In terms of USTTA's budget, this problem has been exacerbated by the enactment last year of the so-called "user fee" on international arrivals who are not U.S. citizens, which is to offset USTTA's funding. This "fee" is, in reality, an unfair tax directly imposed on international airlines and cruise lines and we join the rest of our industry in repudiating it and urging its repeal. Certainly, we cannot in good conscience recommend higher funding for USTTA if the bill is to be paid entirely by only a portion of our industry.

Our second major assumption is that the great international tourism marketing experience, expertise and resources of the private sector; as well as those of the states and communities, can be much better mobilized and coordinated to the benefit of the entire nation. The country's international tourism trade development effort should be undertaken as a genuine partnership between the Federal government and the private sector, including the states, regions and cities.

The third assumption that has shaped our recommendations is that as more and more government policies affect our nation's tourism trade performance, it is increasingly critical that USTTA expand and enhance its involvement in the formulation and implementation of those policies. Some examples would include the negotiation of bilateral and multilateral trade agreements such as GATT and EC '92, the impact of Federal inspection services (e.g. inspections by the Customs Service and the Immigration and Naturalization Service) on international travel, and the importance of our transportation infrastructure to international tourism trade.

To correspond to the two major components of the agency's mission, there should be two principal divisions at USTTA: (1) tourism trade development, which would be responsible for market planning and development, field operations support and a new matching grant program, and (2) policy and planning, which would be responsible for industry research and statistics, program evaluation and the agency's critical role in assessing and participating in other Federal government decisions and policies that affect our international tourism trade.

The Under Secretary of Commerce for Travel and Tourism should continue to be appointed by the President and serve as the head of USTTA, with direct responsibility for overall agency management, as well as all policy and planning functions. More specifically, the Under Secretary would:

- direct all agency involvement in the formulation and implementation of government policies affecting international tourism trade (including interagency relations and international treaty and other negotiations);

- supervise all agency marketing and promotion activities;

- report to Congress on the nation's tourism trade performance;

- represent the agency as liaison to the industry, including, when necessary, mobilizing and rallying the industry and government for joint or cooperative action as demonstrated by USTTA's invaluable role earlier this year in rallying industry and government leaders in response to the severe economic downturn suffered by travel and tourism because of the Persian Gulf situation;

- oversee all financial and management matters.

A career USTTA employee should manage the day-to-day operations of the agency. The tenure of this senior staff official should not be subject to changes in the White House, but instead depend on the agency's performance with regard to tourism trade development. More specifically, the person in this position would function as the agency "general manager" and would be responsible for:

- liaison between the agency and the industry for trade promotion programs;

- direction and management of field operations;

- program evaluation and industry research and statistics;

- preparation of a draft annual trade promotion plan for review and approval by the Under Secretary and the USA Travel and Tourism Advisory Board; and

- preparation and implementation of guidelines, regulations, application procedures and selection criteria for the new matching grant program.

At the international level, the USA Marketing Council believes that USTTA should operate through three regional offices: one for Europe and Africa, another for Asia and the Pacific and a third for North and South America. Canada would be handled from USTTA headquarters in Washington. (Canada already is treated by most of the industry as an extension of the domestic market, which is likely to be even more the case as a result of the U.S.-Canada Free Trade Agreement.) The key functions of these regional offices should include:

- directing and monitoring all USTTA activities in each country within the region;

- coordinating and directing USTTA contract-employees performing such tasks as inquiry responses, literature bent, public relations and other centralized services for countries within the region;

- working with country managers and their VISIT USA Committees to develop country marketing programs for USTTA headquarters approval.

The USA Marketing Council believes that administrative costs should not exceed 50 percent of the total USTTA budget. Later in my testimony, I will suggest a further breakdown of the USTTA budget.

Implementation of these structural and administrative recommendations will, in the view of the senior industry executives that comprise the USA Marketing Council, result in a more streamlined, more focused agency whose organizational framework is better suited to its mission.

The cornerstone of USTTA's marketing strategy should be to foster a partnership between the Federal government, the private sector and the cities, states and regions of the nation. In view of its limited resources, USTTA should refocus its efforts towards greater utilization of the marketing expertise and resources of the private sector and towards programs that help build state, city and regional international tourism promotion capabilities.

The majority of USTTA's promotional resources should be devoted to those international markets where the maximum returns can be obtained in terms of tourism trade. It is not our intention here to develop detailed criteria for the selection of such prime markets. That should be the task of USTTA, word with its Travel and Tourism Advisory Board, and in close collaboration with others from the industry.

Two contrasting examples of such prime markets can, however, be cited. One would be an "emerging" market which can be defined in two ways. First as a country with great potential for substantial growth in tourists to the United States. A market where, for example, we can observe recent increases in per capita income and demonstrated interest in American destinations and attractions, but where little has yet been done to encourage that growth. An emerging market can also be defined as a generally mature market in terms of current generation of visitors but where particular "niche" or targeted promotions could yield greater results.

The second type of market could be described as "mature," and here the commitment of USTTA resources would be much less. This would be a country where the United States has a dominant share of long haul, out-bound traffic and where the United States travel and tourism industry is well-represented and devotes substantial resources to its marketing and promotional activities in that country. In these

mature markets, USTTA would operate a small "maintenance" office, which would work with our industry to achieve incremental growth in tourism traffic. These offices could be staffed either by USTTA personnel or by personnel of the U.S. Foreign Commercial Service, or even by skilled contract personnel. Their more specific functions would include:

- assisting in the development and direction of the Visit USA Committees in the country;
- maintaining liaison with in-country travel trade suppliers and vendors to provide information and support their programs to increase travel to the United States;
- providing technical advice and assistance to United States suppliers and vendors such as transportation and accommodation services, tour operators, attractions, destinations, etc. who are already in that market, or interested in entering it;
- facilitating the distribution of United States travel information;
- developing a country marketing program to be submitted to USTTA headquarters for consideration and inclusion in the annual Tourism Trade Development Plan.

Each year, following the selection of the prime markets to receive priority attention from USTTA, requests for new market development proposals would be sent to the Visit USA Committees in all countries, the Foreign Commercial Service and USTTA regional offices and country managers. In addition, annual announcements should be made to the United States travel and tourism industry soliciting similar input to the market development process. These market development proposals should describe and assess the market's growth potential and outline proposed advertising and public relations strategies, as well as intended follow-up effectiveness assessments.

When programs are selected for market development, USTTA should announce its plans to launch a major program to the industry so that the private sector can support the overall campaign with its own efforts. State and local travel and tourism officials will require at least a year's lead time following such an announcement to enable them to obtain support and involvement from their constituents.

It is likely that some states, cities or regions who should be involved in such market development programs, because of limited resources, will choose not to participate. To assist those who need financial support, the USA Marketing Council recommends the establishment of a modest matching grant program to be administered by USTTA. Concurrently with USTTA's announcement of its market development plans, the agency would thus also invite grant applications from all states, cities and regions, as well as from other appropriate non-profit entities for projects and activities in support of the new market development program.

After a market development program has been conducted and evaluated, USTTA should establish a country maintenance office (in-house or contracted) to assume the responsibility for public relations, information requests, distribution of literature, cooperation with American travel and tourism industry representatives, technical advice and assistance to newcomers to the market and other ongoing programs to foster incremental growth.

We realize that concepts such as giving priority to selected prime markets over mature markets and developing a matching grant program are new and unproven and that although they have been developed by industry officials with extensive international marketing experience and considerable familiarity with USTTA and its operations around the world, they represent departures from current USTTA programs and strategies.

For this reason, we strongly recommend that these new market development programs be carefully and thoroughly evaluated after they are concluded. Clear and measurable assessment criteria should be established in conjunction with the preparation of the new market development program. USTTA's program evaluation staff should work closely with industry participants to determine the efficacy of their joint efforts. Initially, this approach should be tested in one or two markets to ascertain its effectiveness, and modify and refine it as appropriate, with the findings reported to Congress. Expansion of such focused promotional efforts should then be dependent upon positive results and available resources.

Finally, we suggest the following as a conceptual breakdown of the USTTA budget in light of these proposals:

- No more than 60 percent Administration/Overhead
- 20 percent New Market Development (Advertising)
- 10 percent Public Relations/Inquiry-Request Fulfillment/Literature Distribution
- 10 percent Matching Grants for New Market Development
- 10 percent Market Planning and Program Evaluation

The past decade has been a time of enormous growth for the United States travel and tourism industry and international visitors have led that growth, to the point that the international tourism trade is now this country's largest export. But this

nation can and must do more to increase its share of the global travel and tourism market. The level of national government support for policies to facilitate international travel to our shores and for marketing the United States as a preferred destination has been chronically disappointing. But with a fresh start and bold, innovative programs, the USA Marketing Council believes that a recharged and more focused USTTA can, by synergistically stimulating and working in harmony with the private sector and by enhancing the capabilities of the states, cities and regions, help the nation capitalize to the greatest possible extent on its appeal to the rest of the world.

Senator ROCKEFELLER. Thank you very much, Brian. Let me just first apologize to you again, to make another point beyond my apology. Dick Bryan and I were riding over to the vote together and we just were reflecting that this is an incredibly powerful panel before us. I mean, you really talk about tourism in the country, the three of you are just extraordinarily important witnesses.

We were also commenting that it is disruptive of the flow of a hearing when you have to go and vote. You have to do it, but it takes away some of the chemistry, and I regret that very much. So, we will try to get that back.

I want to let you know instantly as panelists that the Sao Paulo visa problem has obviously come to my attention, and I am requesting that the General Accounting Office look at that specifically and at other consulates to see if this a problem elsewhere.

I am also very interested in having them assess the importance to the State Department in terms of visitor facilitation and specifically the question of visa processing, and also asking them to make recommendations in these areas. So, I just think we have to keep putting the pressure on.

Brian, let me ask you this question. The idea of taking 9 or 11 offices down to 3 or 4 is one that you endorse; right? USTTA?

Mr. SMITH. Correct, sir.

Senator ROCKEFELLER. Now, I am trying to put myself in the place of John Keller, and that is kind of a morale problem, because you would probably terminate. So, I would then need to make the explanation to him, or he to his employees, that this really does work. In other words, the idea of saying, let us target those areas which are going to grow—this could be to any of you—makes sense. It is logical; you cannot attack that.

On the other hand, there is so much growth going on in the world, and growth can come in different stages. In other words, we might not have picked Korea 5 years ago, and it goes up and down. My question to you is: Is it the logic of concentrating because of scarce resources that appeals to you in this approach, or is there sort of a mathematical certainty to the fact that if you go to 3 or 3 or 4, or whatever, as opposed to 9, 10, or 11, that your volume, your aggregate volume, is going to be larger?

Any of you can comment on that.

Mr. SMITH. Let me take a shot at it first. I think it really is a little bit of both. One, obviously, with scarce resources—\$15, \$18 million, whatever the number is—there is not a significant amount of money to do all the things that everyone would like to do. So, it has to be allocated out. We, remember, are all marketing people, so we view the world maybe a little bit differently than others do, and our objective is, frankly, to put as much of the USTTA's money into programs, if you will, that are trying to attract foreign visitors

and, if you will, less money into overhead, administrative costs, and so forth.

Senator ROCKEFELLER. So, it is another motivation which drives that, then?

Mr. SMITH. Correct, although even though we divide the world into three spheres, there would still, I think, on a country-by-country basis, be country offices still in existence that would provide some of the services that are still needed. It is just that the office might not be quite as big as it now is, both to save money on the rent and some staff. But we are not saying we would pull out of the countries where there are currently offices.

Senator ROCKEFELLER. Could I just ask each of you, if you were doing USTTA and we did not have a particular budget problem in this country, a deficit problem, what is it that we ought to be spending on USTTA? Not in a perfect world, but in a reasonable world?

Mr. BOOK. Well, one way to respond to that, Senator, would be to harken back to the comments of Senator Burns about Australia and his interest in how they promote that country. They have allocated \$50 million to market Australia in the United States, one country. If you look at it in the context of world marketing and how you are going to get your share of the world tourism market, you are talking about a substantially larger budget for USTTA. The assumption of this plan is that the resources available for USTTA are going to remain limited.

Senator ROCKEFELLER. I know that, but I am trying to get—if we were doing it right, the way we ought to be doing it—I am trying to make a point for the record.

Mr. BOOK. How much money should it be?

Senator ROCKEFELLER. Yes. What should we be doing, commensurate with our size, with our capacity?

Mr. BOOK. Probably \$100 million is a good place to begin, with a percentage of that used for matching funds for these regional organizations, a percent used to go after these targets of opportunity.

Again, back to your original question to Brian, if we were to look at shrinking the organization to three regional markets, inherent in this plan is the idea that you would have a targeted marketing plan for a new market. So what you are really going to do is take the resources that you were spending in 10 markets and spend them in three regions and one or two target markets, where you can measure the return and know you are going to make an impact, where the travel industry itself is not already in that marketplace.

For example, the Disney organization has a strong presence in Europe with their own sales and marketing organization. They do not need, and many other companies do not need the same degree of guidance, the same degree of research, the same degree of help that they do in a market we are not familiar with, such as Korea, as you just mentioned.

Therefore, the resources could be used to make a dramatic impact on the Korean market for 2, 3, 4 years, until we are established, when that market is strong, we are going to have those people coming to this country. Then the private sector will move in, start to do that job, take those resources and move to a new mar-

ket, and maintain a mini or maintenance presence in those countries.

Senator ROCKEFELLER. Brian.

Mr. SMITH. If I could add to Ned's comment, I think that if the private sector, and actually some of the larger States, too, knew well in advance that a target market was going to be, for example, Korea, we all have to go through budget processes like everyone else does. But if we could go back and say that 12 months from now Korea is going to be a target market of USTTA; we would like to open up an office in that country to help support the effort and to benefit frankly from the increased interest in the United States. We would like some extra money to go into some of the cooperative efforts that they will be putting together.

Under Secretary Keller used the word "catalyst," and I think that is exactly the word that we are looking at. If the catalyst of USTTA identifies some markets of opportunity, the private sector, rather than going off in 50 different directions, will go, ah-hah, Korea, along with a South American country and a European country, is a target for 1993. Let us budget for that, let us make sure that we are there to take advantage of it, and we will follow or go in lock step with USTTA, given we need some lead time to make those identifications.

Senator ROCKEFELLER. Joe, let me ask a question to you about unofficial barriers. You obviously have had a lot of experience overseas. Have you run into those? And if you have, could you tell us a little bit about it?

Mr. SHAPIRO. Yes, I have run into them frequently. The most common type of barrier is the thing referred to by a number of the people who have testified today, which is national effort, for example by Italy on behalf of its tourism industry, compared to the relatively small effort by the United States.

Other barriers are subsidies. National flag airlines, I believe in many countries in the world, receive enormous subsidies from their countries of residence. In other words, they have corporate citizenship, compared to the situation we confront in the United States.

If you take yourself back to the days when you were being a camp counselor, I would warrant that you would have found it unthinkable that Pan American Airlines was going to be in desperate financial straits at the same time that JAL, KAL, Alitalia, Air France, SwissAir, British Airways, and I could go on and on, were all flourishing.

To be sure, there may have been management misjudgments during the 10 or 12 years since you were a camp counselor, at Pan Am and certain of the other distressed U.S.-flag carriers. But could we have sat around and foreseen that TWA would be shaky, that Eastern would be history, that Pan Am would be shaky, and all these other foreign flag carriers doing well?

We had, to use economic parlance, a legitimate comparative advantage. That industry was invented in the United States. Commercial air travel was invented in the United States, pioneered by American business. And because there was, in my judgment, no coherent commercial policy, a framework espoused by the Government within which American enterprise could work, we now see

Pan Am going sideways and all these other foreign flag carriers doing well. That is another example.

Senator ROCKEFELLER. Now you know what that will get you in this town, Joe? You will get accused to be in favor of an industrial policy.

Mr. SHAPIRO. I plead guilty. I thought, with all respect, and I do not mean to be flippant, that you are a Member of the Commerce Committee, and I would have thought that the Commerce Committee would be developing a commercial policy. I fully expect that the private sector can execute business decisions within policy, but maybe I missed a class in civics or something. I thought we were supposed to have a policy.

Senator ROCKEFELLER. I am thrilled you said that. It is a fascinating statement. You see, a lot of people, having the same kinds of interests, maybe in some other field, would not make a statement like that. Because they would say, well, we will just handle it by ourselves. The steel industry, for example.

Mr. SHAPIRO. They did a great job. They handled it. [Laughter.]

Senator ROCKEFELLER. They handled it.

Mr. SHAPIRO. They handed it to Japan.

Senator ROCKEFELLER. Yes, and then lost two-thirds of their employees without one dime from the Federal Government. A little voluntary restraint, that is all. But it is very encouraging for me, in fact, to hear you aggressively say that, that the interests of a nation and the interests of the private sector and the role of government are not necessarily by some God-given law antithetical.

Mr. SHAPIRO. Of course not. In tourism, you in the Senate face another issue—major issue of legislation this year, the Surface Transportation Act. There is no way that tourism is going to work in West Virginia if the Pennsylvania Turnpike and the other interstate facilities—I believe the Pennsylvania Turnpike goes out of Pennsylvania, comes into Wheeling, WV, near WWVA, as you were talking about earlier.

Senator ROCKEFELLER. It passes through rather quickly.

Mr. SHAPIRO. Yes, but nonetheless, if a European visitor—let us start with a basic assumption, that the European visitor is not going to drive his or her automobile to West Virginia, and that is a problem; they would get very wet doing that. So, they are going to fly to a port of entry, where hopefully they will be treated nicely by the Customs people.

Then, to visit Pennsylvania, West Virginia, and Appalachia, they will use the interstate system. If we do not have good transportation infrastructure in the United States, which is a function that the private sector really cannot do—business cannot build interstate highways, business cannot build airports and harbors—none of this is going to work. People have to be able to get here.

So, there just has to be a commercial policy with leadership from the Government. It does not have to be subsidies like the airlines or the airbus situation to which I referred.

Senator ROCKEFELLER. Yes, now the Kuwaitis are going to buy their airplanes from us.

Mr. SHAPIRO. Unbelievable.

Senator ROCKEFELLER. Is that not unbelievable?

Mr. SHAPIRO. Yes.

Senator ROCKEFELLER. And we just sit back and——

Mr. SHAPIRO. Yes, well, that is pretty sad.

Senator ROCKEFELLER. Have you run into other kinds of barriers to your being able to get things done, let us say, in either Europe or Japan?

Mr. SHAPIRO. Well, in Japan, the barriers are so enormous that although many people think that we own Tokyo Disneyland, the fact is that that is 100-percent owned by a Japanese joint venture. We just collect royalties. We have just found it a market so full of informal barriers that it has been impossible for us.

Senator ROCKEFELLER. Can you give me an example or two, Joe?

Mr. SHAPIRO. Yes. It does not relate to travel and tourism, but we have a new line of business called the Disney Stores. There are several here in the Washington area. It had worked very well in the United States and was starting to work very well in Europe, so, since our characters are very popular in Japan, and since we are not totally stupid, we said let us try to open one in Japan.

A year later, we had been unable to get a retail location. And it sort of became apparent to us that we had better take on a Japanese partner if we wanted to be able to find a parcel of real estate. And by the way, we are talking, Mr. Chairman, about 5,000 square feet of real estate. This is not a huge facility. We just somehow found there was no landlord who wanted to have a Disney store.

Senator ROCKEFELLER. In other words, that would be called "cross-licensing."

Mr. SHAPIRO. Perhaps.

Senator ROCKEFELLER. Yes.

Mr. SHAPIRO. Perhaps. In France, we have been the beneficiary of conduct which is analogous to the airbus situation or the airline situations. In order to lure us into France, in order to create jobs and to deal with their balance of payments, the French Government made extraordinary concessions to our company in connection with the building of our theme park outside of Paris.

I happen to think it was a situation where the microeconomics of the Disney firm matched rather well with the macroeconomics of the nation of France, because the tremendous number of jobs that would be created. Unemployment has been a serious problem over there.

But we were delighted to be doing business there. There are some difficulties. It would not be within our wildest comprehension in the United States to expect our business or any other travel and tourism business to receive that kind of financial support, and that is indicative. I mean, this sword cuts two ways. We are the beneficiary in France of a terrific package of economic inducements.

So, we have seen it coming and going.

Senator ROCKEFELLER. OK, let me change the subject for a minute. Joe, you have mentioned this, but let me put it to Ned and Brian. You are very explicit in your criticism of the data collection function, and actually in that business, the article that we both looked at, I was also stunned. Because I had been saying that we are a billion or two ahead of Agriculture, and all of a sudden we are 12 or 13 billion ahead of Agriculture. And that is shocking. Now once again, you get to the question of resources, of how you want your money spent in USTTA, but can you tell me why the

data collection insufficiency, as you see it, if you do see it that way, harms you or is a negative influence in terms of the private sector?

Mr. SHAPIRO. I would be happy to. If the information is weak—I will use Orlando as an example; you brought it up. We have many European visitors in Orlando, and relatively less from Asia because of the distance.

Senator ROCKEFELLER. What percentage of visitors are there from other countries, overall?

Mr. SHAPIRO. For the current fiscal year, 20.1 percent.

Senator ROCKEFELLER. Really.

Mr. SHAPIRO. Which is significant.

Senator ROCKEFELLER. What was it—

Mr. SHAPIRO. More than a fifth.

Senator ROCKEFELLER. What was it 5 years ago?

Mr. SHAPIRO. Five years ago it was either 11 or 12 percent.

Senator ROCKEFELLER. OK, OK.

Mr. SHAPIRO. If you are in the human resources department of what we call Disney University, where our cast members are trained to entertain our guests, and you are dealing with information—just one example—you are dealing with information that is 18 months old, and wrong, how can you reasonably estimate the number of Italian-speaking hosts you need, French-speaking hosts, German-speaking hosts? It is impossible. The information is absolutely worthless, to be told what happened in 1988 when you are sitting there in December 1991, trying to staff up.

And reference was made by somebody earlier, I believe it was the Congressman from Wisconsin, to the number of college students who gain employment in this industry. We make great use of college students, and one of the ways in which they are employed is that many of them have language skills. They are studying languages at universities. So, we will hire people who speak Spanish, German, Italian, French. It would really be helpful to know what the trends are. Instead, since we do not have that, we do it ourselves, crudely. We read the newspapers, we check the unemployment statistics, we look at exchange rates, and we try to come up with it.

I do not want to take all the time. I could go on, department by department, how it hurts.

Senator ROCKEFELLER. Well, Ned, maybe you would be able to comment on that.

Mr. BOOK. I would suggest, Mr. Chairman, that this again is a problem of the budget crunch. The Census Bureau, prior to 1980, had travel information and data available for us in a very timely fashion. I believe it was 1979 they discontinued gathering this data, so it was the only information—that was measuring the size of this industry domestically in the United States.

USTTA, I think for the past 2 years, has gathered data on inbound flights, inbound ships into this country, measuring international arrivals. Now that material, I believe, is available in 30 or 60 days on a flash basis. It is unaudited. It takes—my understanding is, for that to go through the entire statistical process to become official statistics, about 18 months. So, what you are dealing with is an estimated number and that is verified as the actual

numbers later. There is not a great deal of variance normally between those numbers.

So, for the purposes of what Mr. Shapiro is talking about, they could probably acquire some 30- or 60-day-old information that would be relatively close and certainly helpful for their efforts. And that information is, I know, available. The official numbers do not come down for about 18 months, and that is the lag that we get. What that means is that in order for us to put out a statistic that says the industry is a \$327 billion industry, to officially say that we have to wait until the Federal Government's numbers are produced, and that is an 18-month period.

So, you really are looking at two separate issues. One is the flash report that gives you those quick numbers, along with what the official numbers are.

Senator ROCKEFELLER. Well, with that in mind, the Marketing Council is suggesting, what, 50 percent of USTTA's budget be spent on marketing. Is that going to allow for some of the rest of the things like this data collection, to be done properly?

Mr. BOOK. I am not familiar with the workings of the Commerce Department budget, but I do not know if USTTA pays or transfers funds to the Census Bureau for the collection of data or not. I think they pay for their own collection of data from the airline industry.

But I think what is needed, and we have talked about this on a number of occasions, is that we need to measure the size of the travel industry with the same enthusiasm that we measure how many carloads of coal are produced, how many ingots of steel of produced, and so forth. And that has got to become a part of the Commerce Department's measurement of the size and impact of this industry. And once it gets that kind of attention, then I believe that we will have more timely numbers.

Senator ROCKEFELLER. Well, and it would be even better if we could get estimates from USTR, because then it would be the official trade estimates and there would be an even higher level, so to speak.

Mr. BOOK. Right.

Senator ROCKEFELLER. There was resistance on that, so we settled with Commerce, and that is going to help. We are just trying to leverage it up to automobiles and television sets, and—well, we do not do that any more.

Mr. BOOK. If I might, let me respond to your earlier question about some barriers. One of the targets of opportunity that is bound to emerge for us in the next 2 to 5 years is going to be the Eastern European countries. One of the barriers that we face with those countries now is currency. There is a restriction on the amount of currency that those nationals can take away from their country. And therefore, that restricts their ability to come and visit the United States.

That is not a problem now, because they are not really a hot target of opportunity, but they certainly will become one, and at that point in time, that is the kind of issue that we think USTTA needs to be able to become involved with. They also need to be involved with the GATT negotiations and other Federal agencies, to try to leverage the opportunity that is available for those Eastern Europeans to come and visit the United States.

Senator ROCKEFELLER. Gentlemen, there are a lot of questions that I would like to ask to plumb your information, but I cannot do that because we are already at 5:05 and we have another panel, so let me thank you very, very much. I apologize again for the delays, but we are very lucky to have you and we appreciate very much your being here.

Mr. SHAPIRO. Thank you.

Mr. BOOK. Thank you.

Senator ROCKEFELLER. Now, our final panel will be Allan Mendelowitz, who has been here before as Director of the National Security and International Affairs Division of the General Accounting Office; Frederick Elder, aviation director of Dade County Aviation Department, Airport Operators Council International; Roger Conner, vice president, Marriott Corp. on behalf of Go USA; and Richard Norton, director of facilitation, Air Transport Association.

Gentlemen, I apologize that you have had to wait as long as you have, but we are very glad that you are here. Allan, why do we not start off with you?

STATEMENT OF ALLAN I. MENDELOWITZ, DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you, Mr. Chairman. I will be happy to submit my full statement for the record, and make a few abbreviated comments. I am pleased to be here today to testify before the subcommittee on the reception of foreign visitors at U.S. airports.

I will discuss our recent recommendations for improving facilities and services for foreign air arrivals, and what steps are being taken to implement these recommendations.

In our March 1991 report, we recommended that the Secretary of Commerce work with other Department heads to speed the clearance process for arriving international air passengers; consider proposals for reinstating U.S. citizen bypass systems at all airports to ease Immigration's workload; and, remove user fee exemptions to provide more funds for Immigration and the U.S. Customs Service.

The Department of Commerce concurred with our recommendation to work with other Departments, and in the Department's May 10, 1991, response to the recommendation, stated that the Department is working with two interagency groups, the National Transportation Facilitation Committee and the Tourism Policy Council.

With respect to citizen bypass, which was in effect from 1978 to 1989, this has been suspended by the INS. Although Immigration officials have stated that they would no longer use citizen bypass, they recently implemented a substitute system, referred to as Accelerated Citizen Examination. The procedure, though, still involves scrutiny of all U.S. citizens' travel documents by Immigration. However, U.S. citizens will be subjected to computerized checks only on a selective basis, thus saving inspection time.

With respect to the user fee exemption to generate additional funds for INS and Customs, the \$5 fee exemption for Canada, Mexico, and the Caribbean has been eliminated for Immigration. This could add about \$75 million to INS's annual budget and allow them to hire more inspectors and presumably improve their processing

capabilities. The legislative user fee exemption for passengers from these locations is still in place for Customs.

We also recommended that the Secretary of Commerce direct the head of USTTA to consider expanding the Gateway Receptionist Program, which is currently operating at 12 airports. The Department agreed to do so if available funds are forthcoming, and it has already had inquiries from five airports who want to have the gateway receptionist program added to their facilities.

Last, we recommended that the Secretary of Transportation request that the NTFC design a comprehensive model plan for providing quality airport services and facilities for foreign visitors, and that this model be completed within 12 months, that is by March 1992. The Department of Transportation concurred with our recommendation, and according to the NTFC and the Department of Transportation, the airports, individually and through the Airport Operators Council International, are very enthusiastic about this project and have been very supportive.

Since that report was issued, NTFC members have taken steps toward completing the guidelines, including the following actions. They have developed an outline of what they want to include in the guidelines; they visited two major international airports.

Senator ROCKEFELLER. Which organization did you say?

Mr. MENDELOWITZ. The National Transportation Facilitation Committee.

Senator ROCKEFELLER. The National Transportation Facilitation Commission. They have come out?

Mr. MENDELOWITZ. They have accepted the charge and the recommendation we made in the report. They are enthusiastic about it. They have gotten good support, indications of support from the airport operators and from the airlines. And they have moved into the implementation phase of the research needed to complete the model.

Senator ROCKEFELLER. Good.

Mr. MENDELOWITZ. The steps that they have taken include the completion of an outline of what they want to include in the guidelines, and it is a very comprehensive outline. I think they are off to a good start.

They visited two major international airports to collect information and observe problems with services and facilities for foreign visitors. In April 1991 there was a meeting in Washington of U.S. airport operators, representing all of the major U.S. airports, and at the meeting the NTFC members asked that the operators submit, by September 1991, their ideas and suggestions for airport services and facilities guidelines.

NTFC members are also contacting foreign members of the Airport Operators Council International at its international headquarters in Geneva, to ask them to submit ideas. Some NTFC members believe that many innovative ideas in airport service and facilities for foreign visitors can be found in these foreign international airports.

After the model guidelines are developed, the next step will be to apply those guidelines to a U.S. international airport. The NTFC should choose an airport for implementing and testing the guidelines to learn what in fact does work and what does not. Airports

are long-term projects, so it is important to start planning now to meet the challenges in future years when even more foreign visitors are expected to arrive at U.S. airports.

Basically we believe that once a model is developed, the next logical step is to come up with a real world application of the model, so that the validity of what is contained in the model is apparent to all of those who want to look, and if there are any problems with what is in the model, they can identify them through application.

This concludes my summary comments, and I would be happy to answer any questions.

[The prepared statement of Mr. Mendelowitz follows:]

PREPARED STATEMENT OF ALLAN I. MENDELOWITZ

I am pleased to be here today to testify before this Subcommittee on the reception of foreign visitors at U.S. airports. I will discuss our recent recommendations for improving facilities and services for foreign air arrivals and what steps are being taken to implement these recommendations.

Approximately 39 million foreign visitors¹ came to the United States during 1990. The number of foreign visitors to the United States has grown about 50 percent since 1985 and is expected to increase by about 75 percent of the 1990 figure by the year 2000. Foreign tourism provides many economic benefits to the United States. According to the Department of Commerce's U.S. Travel and Tourism Administration, foreign visitors to the United States generated estimated revenues of \$51.1 billion in 1990—more than the leading U.S. exports, including agricultural goods (\$40.1 billion) and chemicals (\$36 billion). In 1990 foreign travelers to the United States directly supported an estimated 850,000 U.S. jobs and generated \$5.5 billion in federal, state, and local tax revenues.

In July 1990 I testified before you on foreign visitor facilitation, and in March 1991 we issued a report on the issues and conditions affecting the speed and ease of entry of foreign visitors at U.S. international airports.² The report highlighted specific conditions at 13 of the 15 largest U.S. airports. For our report, we reviewed the federal inspection process,³ airport services and facilities, and projects to improve visitor facilitation. At the 13 airports we reviewed, we found that routine clearance processing during peak times significantly exceeded the International Civil Aviation Organization's worldwide time goal. This goal aims at allowing only 45 minutes to pass from the time a plane lands until all passengers are cleared through the federal inspection process. We also found that the quality and extent of airport services (ground transportation, translation services, lodging information, directional and informational signs, baggage carts, and currency exchange) varied widely at the airports we reviewed. Furthermore, federal inspectors at 12 of the 13 airports we reviewed considered airport facilities inadequate.

Based on these findings, we recommended that the Secretaries of Commerce and Transportation take certain actions to improve foreign visitor reception. I would like now to discuss these recommendations, including recommendations for (1) speeding the federal inspection clearance process, (2) expanding the Gateway Receptionist program, and (3) developing model guidelines for airport services and facilities, and the progress made towards implementing them in the 4 months since our report was issued.

SPEEDING THE FEDERAL INSPECTION CLEARANCE PROCESS

In our March 1991 report we recommended that the Secretary of Commerce work with other Department heads to speed the clearance process for arriving international air passengers and consider proposals for reinstating the U.S. citizens bypass system⁴ at all airports to ease immigration's work load and removing user fee ex-

¹ Foreign visitors are non-U.S. citizens who come to the United States for more than 24 hours but less than 1 year, for the purpose of business or tourism or for other reasons.

² Foreign Visitor Facilitation, (GAO/T-NSIAD-90-56, July 18, 1990) and *INTERNATIONAL TRADE: Easing Foreign Visitors' Arrivals at U.S. Airports*, (GAO/NSIAD-91-6, March 8, 1991).

³ The federal inspection process involves the Immigration and Naturalization Service (INS), the U.S. Customs Service, the public Health Service, the Animal and Plant Health Inspection Service, and the U.S. Fish and Wildlife Service.

⁴ Between 1978 and 1989, INS speeded up the inspection process by using a "citizens bypass system," under which it did not have to inspect the travel documents of returning U.S. citizens.

emptions in order to provide more funds to Immigration and the U.S. Customs Service.

The Department of Commerce concurred with our recommendation to work with other Departments to speed the clearance process for arriving international air passengers. The Department of Commerce's May 10, 1991, response to this recommendation stated that the Department is working with two interagency groups: (1) the National Transportation Facilitation Committee (NTFC) and (2) the Tourism Policy Council. The NTFC, composed of government and private sector representatives, coordinates the development, implementation, and conduct of programs that affect the movement of passengers and cargo through U.S. international airports, seaports, and land ports. The Tourism Policy Council, a federal interagency coordinating council chaired by the Secretary of Commerce, works to assure that the national interest in tourism is fully considered in federal decision-making.

U.S. Citizens Bypass System

The U.S. citizens bypass system, which was in effect from 1978 to 1989, reduced the workload of Immigration officers and made more personnel available to process incoming foreign visitors. However, at the time of our review it was no longer in use because Immigration officials questioned whether the U.S. citizens bypass system was consistent with INS enforcement objectives. Despite these concerns, Immigration officers at two of the busiest airports, New York's John F. Kennedy International and Miami International, employed U.S. citizens bypass in 1990. The practice was again stopped when the Gulf War forced tighter security measures at all U.S. airports. Currently, there seems to be some disagreement about how to expeditiously process U.S. citizens.

Although Immigration officials have stated that they will no longer use U.S. citizens bypass, they recently implemented a substitute system referred to as "Accelerated Citizen Examination." The procedure still involves scrutiny of all U.S. citizens' travel documents by an Immigration official. However, U.S. citizens will be subjected to computerized checks only on a selective basis, thus saving inspection time. An Accelerated Citizen Examination may be used at any airport at the discretion of the supervisory Immigration officer, particularly when peaking (the arrival of many planes within a narrow time period) occurs or the number of returning U.S. citizens is particularly high.

Other agencies involved in the inspection process have views on the extent of INS screening of arriving U.S. citizens because it may affect the agencies' abilities to carry out their responsibilities. The Department of Commerce reported that the U.S. Customs Service could support reinstatement of a U.S. citizens bypass system if international airlines would expand their participation in the Advance Passenger Information System (APIS), a program that allows participating air carriers and foreign governments to electronically transmit to federal inspectors information on arriving passengers. Customs developed APIS as a means of promoting selective inspections. The transmitted names and dates of birth of the passengers are automatically compared to the Interagency Border Inspection System (IBIS)⁵ and foreign law enforcement data bases. Because APIS performs the query before a flight arrives, federal inspectors should be able to clear arriving passengers much more quickly.

Successful use of APIS requires the cooperation of all airlines and airport authorities and several airlines were beginning to use APIS as a means of speeding the federal inspection process. However, some Customs officials believe that with INS' use of Accelerated Citizen Examination, there is little incentive for the airlines to participate in APIS to speed the federal inspection process. This concerns some Customs officials, who view INS' use of Accelerated Citizen Examination as a good move for "facilitation" purposes, but a bad move for enforcement: Customs' selective inspection process depends, to a certain extent, on INS' cooperation in obtaining passenger information and querying the IBIS system.

User Fees Exemptions

The legislative exemption from the \$5-per-passenger user fee for air travelers from Canada, Mexico, and the Caribbean has been eliminated for Immigration. This fee could add approximately \$75 million to Immigration's annual budget, allowing it to hire more inspectors and presumably improve its processing capabilities. The legislative user fee exemption for passengers from these locations is still in place for Customs. Customs would like to see the exemption eliminated, an action which could also add approximately \$75 million to Customs' budget. The airline industry,

⁵The Interagency Border Inspection System is a single data base query system for both INS and Customs that incorporates all of the lookouts and warnings from inspection and law enforcement agencies at the point of first contact with the passenger (Immigration).

which supported the lifting of the exemption for Immigration, is studying whether or not to support a similar action for Customs.

EXPANDING THE GATEWAY RECEPTIONIST PROGRAM

We recommended that the Secretary of Commerce direct the head of the U.S. Travel and Tourism Administration to consider expanding its Gateway Receptionist Program. The Department of Commerce agreed to do so. It stated that it will seek and respond to more airport "partners" if it receives additional appropriated funds.

The Commerce Department's U.S. Travel and Tourism Administration administers the Gateway Receptionist Program for foreign visitors. The program, which began at John F. Kennedy International Airport about 20 years ago, employs college students with foreign language skills as translators. These students assist foreign visitors who speak little or no English and help in the federal inspection process. The program operates at only seven of the airports we reviewed for our study.

The Gateway Receptionist Program is funded by the Travel and Tourism Administration, participating airports and work study grants from the Department of Education. The budget request for the Gateway Receptionist Program for fiscal year 1992 is \$240,000, the same as the amount for fiscal year 1991. Airport operators at five international airports that did not previously have Gateway Receptionists have inquired about obtaining Gateway Receptionist services. These airports include those in (1) San Antonio, (2) Phoenix, (3) Detroit, (4) Orlando, and (5) Newark.

DEVELOPING MODEL GUIDELINES FOR AIRPORT SERVICES AND FACILITIES

We also recommended that the Secretary of Transportation request that the NTFC design a comprehensive model plan for providing quality airport services and facilities for foreign visitors and that this model plan be completed within 12 months (by March 1992). The Department of Transportation concurred with our recommendation. According to the Department of Transportation's May 13, 1991, response to the recommendation, development of the guidelines will rely heavily on suggestions from airport operators in the United States as well as on airport operators of international airports in other countries and on airlines and air travel organizations. The Transportation Department, as chair of the NTFC, will coordinate the project.

The National Transportation Facilitation Committee

We believe that the NTFC is the appropriate body to develop model guidelines.⁶ There are three entities involved in foreign visitor facilitation—airport authorities, federal inspection services, and airlines. Because the activities of all three affect international travelers, we believe that a working group that includes representatives from all these entities is the best forum for addressing and trying to resolve foreign visitor facilitation problems.

On January 30, 1990, prior to issuing our report, we met with members of the NTFC to discuss whether they could develop model guidelines for providing the best possible foreign visitor services and facilities. The Committee members agreed to do so.

According to the NTFC and the Department of Transportation, the airports—individually and through the Airport Operators Council International—and the airlines are very enthusiastic about this project and have been very supportive. This support is important because the development of useful guidelines depends heavily on the participation of the airport operators and the airlines. Federal agencies contributing to the development of the guidelines include the federal inspection services, the Federal Aviation Administration, and the U.S. Travel and Tourism Administration. The staff of the Department of Transportation's Assistant Secretary for Policy and International Affairs will coordinate development of the model guidelines.

Since our report was issued, NTFC members have taken steps toward completing the guidelines, including the following actions:

- They have developed an outline of what they want to include in the guidelines.
- They have visited two major international airports in the Washington, D.C., area—Dulles and Baltimore-Washington International—to collect information and observe problems with services and facilities for foreign visitors. They attempted to look at these airports from the perspective of foreign visitors. In both cases, repre-

⁶The Department of Transportation established the NTFC in 1984. In the past, the Committee focused primarily on the federal inspection services. It published "Guidelines For Federal Inspection Facilities at Airports" in 1990 to help provide the best possible federal inspection facilities at U.S. international airports.

representatives of the airports accompanied the NTFC group on their tours, and the NTFC group pointed out problems they observed at the airports.

—In April 1991, there was a meeting in Washington of U.S. airport operators representing all the major U.S. airports. At the meeting, NTFC members asked that the operators submit to NTFC by September 1991 their ideas and suggestions for the airport services and facilities guidelines. NTFC members are also contacting the foreign members of the Airport Operators Council International through its international headquarters in Geneva to ask them to submit ideas. Some NTFC members believe that many innovative ideas in airport services and facilities for foreign travelers can be found in foreign international airports.

After the model guidelines are developed, the next step will be to apply those guidelines at a U.S. international airport. The NTFC should choose an airport for implementing and testing the guidelines to learn what does work and what does not. Airports are long-term projects, so it is important to start planning now to meet the challenges in future years when even more foreign visitors are expected to arrive at U.S. airports.

Mr. Chairman and members of the Subcommittee, this concludes my statement. I will be happy to answer any questions the Subcommittee may have.

Senator ROCKEFELLER. Thank you.

I introduced Mr. Conner as Richard, and it is Roger. My apologies to you.

STATEMENT OF ROGER CONNER, VICE PRESIDENT, MARRIOTT CORP., WASHINGTON, DC, ON BEHALF OF GO USA

Mr. CONNER. Thank you very much.

It is a pleasure to be here today. Thank you, Mr. Chairman. Allow me to say that we are extremely appreciative of your focus on the travel industry and, indeed, even though Senator Burns is not here at this moment, I wish to thank him for his most kind comments about Go USA and Bill Marriott's involvement with that effort in helping to spearhead it. I will be quick to personally convey to Bill Marriott Senator Burns' comments here today. I equally appreciate the comments of Ned Book from TIA in regard to Go USA, and I will be sure to share those as well.

I would further add that naturally Bill Marriott would have preferred to personally be here today so he could have expressed those thoughts to you and your colleagues, and I apologize that his schedule did not allow him to be here. I am happy to stand in, but in no way do I pretend to be Bill Marriott. His name is on the door, as we say.

My brief message today is a selected short subject, if you will, in the midst of a bigger, full-length picture that you are addressing. I wish to quickly update you and report on the Go USA travel coalition. I guess Go USA is best explained as a process that might serve as an example rather than a directly targeted effort at what S. 680 addresses, but I think it deserves to be showcased as an example.

As you know, the effort took shape in late February, with the help of numerous private sector chief executive officers from the travel industry companies, along with all appropriate associations that so dutifully support the travel industry and appropriate Government offices.

And without chronicling here at great length that effort, I think that in a nutshell you could say it was an effort that involved research, advertising, public relations, and Government relations at the Federal, State, and local levels. It was noteworthy because it happened quicker than anything that I can recall ever occurring

within the travel industry, and perhaps that speaks to the direct and hands-on involvement of the CEO's from the private sector companies.

It also generated money, which is necessary to do just about anything these days, particularly when you are communicating with people and attempting to generate public awareness. And it did that in short order. With \$7 million collected it basically embarked upon somewhat of a precedent-setting advertising and PR program.

Rather than talk at length about that, with all this technological equipment before us and not yet used, if I may ask—is it Sue—Susan to be please roll the tape that briefly highlights the television commercial that was utilized by Go USA to jump start travel within this country, and some of the publicity that was generated by this very cohesive, quickly mobilized effort.

Senator ROCKEFELLER. Good.

[A videotape was shown.]

Mr. CONNER. Thank you very much, Susan. I think the legacy, or epitaph, if you will, of Go USA, since there are no plans that I know of presently to permanently establish it as an ongoing agency is—it was kind of a once-and-done effort—that the industry stands ready to act in advance of such catastrophic conditions that it confronted earlier this year.

The precedent has been set for the private sector. All of the associations that represent the industry, all of the appropriate Government agencies and offices, can get together. And the legacy is that the whole is greater than any one of its parts. Go USA was living proof of that.

Certainly, I think a second note is that the travel industry, despite comments to the contrary, can come together as a cohesive, quickly mobilized unit for the good of the total industry and then go back to appropriately going after each other's jugular veins like they regularly do.

And I guess third, the major legacy or lesson to be learned is one for the private sector. Namely, that is really there was nothing too incredibly precedent setting about the activities that Go USA took on. It was energizing. It was great for the industry in a time of need. It created feel good for all of those engaged in the industry. But it really was an example of the kinds of activities that USTTA and TIA and numerous other organizations have been all about for some time.

So, therefore I think that, in somewhat of a humble fashion, the private sector having basically bestowed upon us this "success" over a 6-week period, now also recognizes that it must more regularly support and stay involved with the ongoing efforts of USTTA and TIA and any others that are all about making the whole more important than any one of its parts.

So, that is the update that I have for you today on Go USA and some of the lessons to be learned. From Bill Marriott and Marriott Corp. on S. 680, it certainly has his and the company's strong endorsement. I think we must be mindful that we can ill afford to rest on our laurels as it relates to the perception among international travelers, that America must be high on their list of top destinations.

We must, in a growing global economy, where that phrase finally is changing from rhetoric to reality, and certainly will more so in the next 10 to 20 years, we must make certain that the country of the United States perpetuates staying on top of international travelers' most preferred destinations. And we must do something about that; it will not happen automatically. In regard to S. 680, I think it is headed in that direction, and it has Marriott's endorsement.

I thank you for the opportunity to be here today.

Senator ROCKEFELLER. Thank you, Mr. Conner, very much. Mr. Elder.

STATEMENT OF FREDERICK A. ELDER, AVIATION DIRECTOR, DADE COUNTY AVIATION DEPARTMENT, ON BEHALF OF THE AIRPORT OPERATORS COUNCIL INTERNATIONAL, WASHINGTON, DC

Mr. ELDER. Mr. Chairman, I am Rick Elder. As director of the Dade County Aviation Department and Miami International Airport, I am very pleased for this opportunity to testify before you today on behalf of the U.S. members of the Airport Operators Council International, AOCI.

AOCI represents the governmental bodies that own and operate the principal airports that are served by our scheduled airlines in the United States and around the world. AOCI's member airports enplane and receive all international scheduled airline traffic in the United States.

I have submitted a formal written statement for entry into the record regarding our concerns for our ability to meet the growing demand of international travel to this country. I would like to spend a few minutes to personally comment on some of the major immigration issues causing these concerns.

As you are well aware, there are three major international airports in the United States: New York-Kennedy, Miami, and Los Angeles, plus there are several other airports which also have international traffic. Of the three major international airports, Miami is the second largest international gateway in the Nation.

Miami has a unique geographic location and almost 60 international airlines serving almost 100 cities in foreign countries. Florida's tremendous international tourism industry and Miami's successful role as a major international trading center for the Caribbean and Latin America are globally acknowledged. Miami Airport provides first-class facilities to serve our international airlines and our international passengers.

During the past 10 years, we have spent more than \$100 million in Federal inspection facilities, which now cost us more than \$10 million each year in operations and maintenance. New and expanded Federal facilities will be built at Miami International Airport and require an additional \$100 million over the next several years.

Mr. Chairman, during the past 5 years, our international passenger volumes have increased at 10 to 15 percent annually. This means we are doubling our international traffic every 5 to 6 years. Our average growth rate for each of the past 8 weeks has been 14 percent. During July and August, we shall be handling 20,000 arriving international passengers each day, some 15 percent above

last summer, with 25,000 passengers each day on weekends, some 25 percent higher than last summer.

So, it is easy to understand that clearing the complete Federal inspection system in the congressionally mandated 45-minute standard is desperately important to us. Last year at some major airports, passengers who had flown 8- to 10-hour journeys were then left on their aircraft for up to 2 hours before they could spend another 2 hours being processed by Immigration.

Unfortunately, many of these delays at our airports result from Immigration policy, as opposed to facilitation, forcing us to this next step: an appeal to you for help. We applaud you, Senator Rockefeller—

Senator ROCKEFELLER. Are you going to discuss some of the policy problems?

Mr. ELDER. Yes, sir.

Senator ROCKEFELLER. Good.

Mr. ELDER. For Senate bill 680, that bill goes to the heart of the issue that brings us before you today. International trade, travel, and tourism create jobs for Americans and bring billions of dollars of revenues to this country. Our natural resources, our magnificent national parks, bustling modern cities, and American creativity are going home with international tourist and business people, in their cameras, on their videos, and in their memories.

S. 680 is an important piece of legislation which directs our attention to those opportunities which exist in this international marketplace. But we have a problem, Mr. Chairman. We cannot unnecessarily delay, detain, discourage, or disappoint these international travelers and expect them to return, just as we cannot our citizens, returning home from foreign lands, to an inquisition-style clearance system. It is bad public policy, bad for our national image, and bad for international business.

Because the international airports are an integral part of the equation, and because we believe in a strong, efficient international trade and tourism policy, and because we care how our visitors and citizens are treated in our facilities, we would like to make some specific recommendations for your bill.

Section 6 of S. 680 directs the Secretary of Commerce to work with the appropriate Federal agencies to facilitate entry into this country. Airport operators believe the following points will help achieve that goal.

First, we must immediately increase the number of operational Immigration inspectors actually on duty clearing international passengers at our Nation's airports. That is, real, live bodies, not budgeted positions. INS' own staffing model indicates a fully funded requirement for 640 inspectors this fiscal year. Yet at the start of our peak summer season, less than 200 had been hired. INS has made some headway in the last—

Senator ROCKEFELLER. How many do you have at your airport, and how many should you have?

Mr. ELDER. We have right now, Senator, we have about 110 today. We should have about 180, and we have additional inspectors coming now.

Senator ROCKEFELLER. Which will bring you to what number, the additional inspectors?

Mr. ELDER. 180. We should have 180 in the next 6 months.

Senator ROCKEFELLER. So, in theory, you'll have all that you require.

Mr. ELDER. All that we are budgeted.

Senator ROCKEFELLER. No, I am not asking that. I am saying how many should there be to carry out the process the way you want it to be? How many would there have to be?

Mr. ELDER. The process the way we want it to be would probably be over 200, but I have got some other points that I want to make to show you how these numbers do not necessarily reflect what we really need at these airports.

Senator ROCKEFELLER. OK.

Mr. ELDER. We must accelerate, though, the hiring and the training of these inspectors.

Second, INS district directors should be given the authority to support to use part-time and seasonal staffings to meet peak period and peak season traffic demands, and this goes to your question. Today we are not using the part-timers the way we believe it should be used, which would then bring down the total numbers of full-time inspectors based on the models that are being developed today.

We have had great success at Miami in the past using school-teachers to meet our extra summer needs.

The INS airport directors and district directors are the ones that know their problems. They can implement solutions if given the authority by headquarters. INS staffing models should be recomputed with part-time employees to maximize the staffing during these peaks and to minimize the cost to the INS.

Senator ROCKEFELLER. You mean you cannot officially get school-teachers? You just said you do get them.

Mr. ELDER. We have used those, but we were in a meeting with Commissioner McNary yesterday, and the INS policy has not been laid out very clearly. A lot of the airports across the Nation believe that they cannot use part-timers. We have been able to use part-timers.

The problem that we are facing across the Nation is that the policy is not clear. It is left up to the districts. And so we have a difference depending on what airport you are going to, whether they are using part-timers or not.

Third, INS should look to the Customs Service for a successful role model. For the past 2 years, Customs has stressed a synergy between enforcement and facilitation, using modern selectivity techniques. INS is still stuck in enforcement. We are not suggesting that enforcement be compromised in any way. Quite the contrary. As shown with the Customs model, INS can more efficiently focus its resources through a process of selectivity.

Fourth, in terms of focusing INS resources, the reintroduction of the modified citizens' bypass program, or accelerated citizen examination, ACE, is a good start. But it should be in place, active, at all times, not only "when absolutely necessary to reduce congestion." I am quoting from a telephonic message that was sent from the INS Commissioner to their regional and district directors, dated June 14. Please note, Mr. Chairman, the program developed

by INS stresses reducing congestion rather than preventing congestion.

Next, we should ask if INS really needs to spend twice the normal time, or 2 full minutes processing every single Western European or Japanese tourist visiting the United States under visa waiver programs. The United States must treat our visa waiver visitors in a friendly, efficient, and civilized manner, just as we are treated when we visit their countries.

You might ask INS, Mr. Chairman, for their own statistics on the percentage of air entries by passengers from nonvisa waiver countries who are refused entry or who are subsequently deported from the United States versus the percentage of air entry visa waiver passengers or citizens who are refused entry or are subsequently deported. I think you will find that the visa-waiver countries, the visitors from those countries are people that the front-line agencies of the Federal Government should be welcoming to the United States.

Fifth, we have had great experiences and success with the preinspection trials at London last year. Full planeloads of American Airlines flights from Gatwick were through all of our immigration and customs procedures within 20 minutes. We loved it, the airlines loved it, the passengers loved it, since it very effectively used the 2-hour period that they now spend between the check-in and the actual flight departure.

Yesterday at a meeting with Commissioner McNary, INS confirmed its full support for reinstatement of preinspection at London and expansion of that program to other high-volume airports. AOCI member airports strongly support this position. Preinspection was a great program. It should be started again at London, then at Frankfurt, then Paris, Amsterdam, Tokyo, and beyond.

Speaking for Miami, we would respectfully suggest consideration be given to requiring that when a U.S. citizen leaves the United States to travel anywhere, including the Caribbean and Mexico, that he will need a U.S. passport to enter the United States again. No more dogeared voters registration cards or illegible driver's licenses. We must make the immigration inspector's job easier in the interest of efficiency and the expeditious clearance of all the passengers.

In conclusion, Mr. Chairman, Miami International Airport and all of our AOCI airports take facilitation very seriously. We all care. We all support the Federal agencies in the effort to perform their difficult tasks effectively. But we must demand efficiency. Bricks and mortar are only part of the answer. We encourage moving into the state-of-the-art inspection technology to expedite the Federal process as traffic demands increase.

But we have congestion now, today, even as we speak. An immediate fix would be the immediate activation of ACE at our gateway airports, use of part-time employees during peak periods, and reinstatement, followed by expansion, of the preinspection program.

Congressional direction promoting a national commitment to efficiency and friendly access to this great Nation must be imparted to the INS top management and other Federal agencies. America's share of the 2 billion people that will be flying worldwide each year by the turn of the century depends on such a commitment.

Mr. Chairman, I will be pleased to reply to any questions that you may have.

[The prepared statement of Mr. Elder follows:]

PREPARED STATEMENT OF FREDERICK A. ELDER

Mr. Chairman, Members of the Subcommittee, I am Rick Elder, Director of Aviation, Dade County Aviation Department, Miami International Airport. I am pleased to testify today on behalf of the U.S. members of the Airport Operators Council International (AOCI).

AOCI represents the governmental bodies that own and operate the principal airports serving scheduled airlines in the United States and in many countries. AOCI member airports receive virtually all international airline traffic entering the United States. We appreciate the opportunity to discuss facilitation issues, and the severe problems they cause for our airport members and their communities.

Mr. Chairman, we commend you for holding these important and timely hearings. The summer travel season has begun and we have already seen an increase in passenger processing times at international airports across the country. We expect a repeat of last summer's disastrous delays of as much as four hours at U.S. airports, unless the Immigration and Naturalization Service immediately addresses serious staffing and policy questions.

AOCI would also like to commend you, Mr. Chairman, for your work with the General Accounting Office to produce the March report entitled "Easing Foreign Visitor's Arrivals at U.S. Airports." The GAO makes a number of important points that we will address later in the testimony. AOCI would also like to commend you for crafting and introducing S. 680. This important legislation will undoubtedly benefit and facilitate U.S. travel and tourism.

THE IMPORTANCE OF FACILITATION

U.S. international airports exist to connect the communities of the United States to the international air transportation system, to enable the movement of business travelers and tourists, and the shipment of cargo and mail. Our communities look to international air travel for new opportunity. Airports, state and local governments, and tourism and economic development organizations expend enormous time, effort and resources on international marketing.

THE FACILITATION CONCEPT

In the 1944 Convention on International Civil Aviation, governments agreed to adopt all practical measures to facilitate and expedite air transportation. The convention, known as the Chicago Convention, is the principal instrument of international law governing aviation, and its articles 22 and 23 emphasize the need to establish rapid customs and immigration procedures, to smooth the link between international air transportation and the community. The drafters recognized that the procedures for processing steamship passengers after days in transit, if applied to international air transport, would remove much of the value and rapidity of traveling by air.

Many nations of the world have fulfilled their international commitments, and have implemented the standards and recommended practices in the International Civil Aviation Organization (ICAO) Annex 9 (Facilitation) to the Chicago Convention. Annex 9's provisions are aimed at reducing formalities and documentation requirements, improving the installations and services for users of international air transport and in achieving the rapid clearance of international passengers and cargo.

Poor air transport facilitation is a severe handicap for airports. It consumes much of the capacity of scarce and expensive airport facilities, and reduces the quality of service the airport provides to the community. Facilitation problems cause passenger facilities and airfield installations to become congested and operate inefficiently and subject the passenger to delay and discomfort.

U.S. airports have invested billions of dollars to improve international arrival terminals throughout the country, and will continue to do so. Over the next five years, communities plan to spend in excess of \$50 billion on capital improvements at their airports. About \$10 billion will be spent on new and improved international terminals.

Delay in federal inspection processing in our airports imposes an unnecessary penalty on airports and communities that are working to build the best facilities possible.

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icy. Congress however, establishes law and policy, and we urge you to consider the following issues and invite debate.

INSPECTION PROCEDURES AND PROBLEMS

Mr. Chairman, Section 6 of your "Tourism Policy and Export Promotion Act of 1991" (S. 680) directs the Secretary of Commerce to coordinate with the appropriate federal agencies and take action to ensure that foreign tourists are not unnecessarily delayed when entering the U.S. We would like to suggest to the Subcommittee several specific areas where facilitation could be improved, and we would like to focus our recommendations on the problems we are currently experiencing with the Immigration and Naturalization Service.

It is important to note that INS does not have any budget problems that preclude them from addressing these delay problems. Funds are available to increase staff, and to improve operating procedures so that the agency can meet the internationally recognized and congressionally mandated 45-minute passenger processing standard. That is 45 minutes from the door of the aircraft through the front door of the terminal, after clearing all of the federal inspection agencies.

Mr. Chairman, let me emphasize that the International Civil Aviation Organization and Congress have explicitly directed the U.S. government to complete all inspections within 45 minutes of arrival of an international flight. This time limit allows an international passenger to make his or her flight connection within the normal 90 minute air transport industry standard. We urge the subcommittee to reiterate in legislation that all federal inspections be completed in less than 45 minutes.

Last year, Congress took the bold step of eliminating the user fee exemption for Canada, Mexico, and the Caribbean. This action generated the much needed revenue required to hire many new immigration inspectors at airports. Despite the best efforts of the Congress, INS has not fully utilized this new revenue stream.

In January of this year, INS released a staffing model that proposed hiring an additional 450 inspectors in 1991. We must point out that in addition to the 450 new positions, INS already had 190 existing vacancies at the time that this report was released. Of these 640 positions, fewer than 200 had been hired by the start of our peak summer season.

Mr. Chairman, we cannot stress the point strong enough that it would have taken every one of these 640 inspectors, and then some, to be in if we are to avoid excessive delays at our major gateway airports this summer.

I would like to mention, Mr. Chairman, that the INS proposed 450 new inspectors is not even the number needed to meet the 45-minute standard. According to INS' own staffing model, they will need over 750 new inspectors to meet the international standard (that is 750 new positions in addition to the 190 existing vacancies). It is our understanding that the number 450 was chosen due to limitations on training programs, not due to limited funds. We believe that given the current situation, INS should be doing everything possible to hire and train every inspector needed to meet the international standard this year. INS has the funds this year to hire the requisite number of inspectors. It is unacceptable that INS cannot, or will not, expand their training capacity to address this crisis. We are pleased that INS Headquarters has finally approved the Miami District Office to do its own hiring, and to initially train on-the-job this summer, for the first time.

As we have mentioned, one of the root causes of INS' inability to rapidly and effectively process arriving international air passengers is the constant shortage of INS staff. All INS air passenger processing is paid for out of the Immigration User Fee. There is a constant problem with application of INS user fee revenues to other functions, such as border control and non-aviation detention and deportation, and this diversion of funds must be stopped. Such detention and deportation functions do not benefit air travelers who pay the user fee, and to apply the funds to such programs can only further undermine facilitation at airports.

With regard to part-time and seasonal staffing, INS has been moving away from utilizing this useful source of staffing over the past two years. Airports believe that part-time and seasonal staff are an important tool that can be used very effectively to meet the demands of peak scheduling and seasonal travel increases. At many international gateways, flights from abroad tend to arrive at a certain time of the day. The demand on INS staff is very heavy for this portion of the day and then may drop off to lower levels for the rest of the shift. Part-time staff can and should be utilized to work these peak periods. The same is true of the summer travel season. Several INS regions have traditionally employed teachers and others to work the summer months to assist with the seasonal increases in travel. We find no evidence that either part-time or seasonal staff are less effective and in fact, we believe that this is a cost-efficient way to improve processing at peak times.

Airports share the federal government's concern about airline peak scheduling. However, peak scheduling is driven by market forces. The airlines cannot deny the service that the marketplace demands. As a result, we do not see a reduction in peak scheduling in the foreseeable future. Therefore, airports and the federal government must find efficient and effective methods of servicing that demand. We believe that part-time and seasonal staff are a proven way to deal with airline peak scheduling.

For the long term, we believe that INS adopt some kind of selective inspection procedure, such as citizen bypass, to be able to handle the constantly increasing international air travel demand.

The GAO report specifically endorsed citizen-bypass, stating "INS could reinstate the U.S. citizen bypass system at all airports. This system would substantially decrease INS' inspection work load and free up resources for clearing foreign visitors."

AOCI strongly supports citizen bypass as a means of facilitating passenger processing. Airports have repeatedly discussed the possibility of returning to a citizen bypass program with INS. We all the new Accelerated Citizen Examination program or "ACE" is a first step in this direction. However, the ACE program does not go far enough.

First of all, ACE, as currently designed, is reactive—not proactive. Airport operators strongly believe that INS must take proactive steps to eliminate unnecessary lines and delays at our international gateways. In its June 14th memo to field offices, INS headquarters directed port staff that "local management may accelerate the examination of U.S. citizens when it is determined that the 45-minute standard cannot be achieved for arriving U.S. citizens." The memo goes on to say that "accelerating the examination of U.S. citizens will expedite processing all applicants for admission through more effective utilization of available personnel."

Mr. Chairman, we believe that INS should immediately implement accelerated citizen examinations across the board, at all international airports.

It is clear, even in INS' internal communication, that U.S. citizens should not be subjected to lines of even 45-minutes when they may be examined more quickly. In our opinion, a 45-minute minimum should not be the focus. INS should instead be attempting to clear all citizens and visitors as fast as possible. If a flight can be processed in 10 or 15 minutes, INS should work toward that goal. The federal inspection agencies, particularly INS, must not become complacent with achieving 45 minutes. The 45-minute standard was set as an extreme processing time, not a normal processing time.

Mr. Chairman, INS also acknowledged in the June 14th memo that ACE will allow inspectors to process foreign visitors more quickly and concentrate their resources more efficiently on those passengers who truly pose an enforcement risk.

As airport operators, we are also concerned about the tremendous amount of discretion left to the first line INS local supervisors under the current ACE structure. In order to facilitate tourism and travel, our nation needs a strong and consistent national policy—not a policy that changes from shirt-to-shirt and port-to-port.

Mr. Chairman, we urge the subcommittee to direct INS to expand ACE to a permanent, standardized program.

Another measure for the longer-term is the use of preclearance and preinspection clearance, or inspection, of air passengers in the interval between their check-in for their flight and the actual departure for the U.S. can be a useful facilitation measure. Preinspection at one major airport abroad can relieve passenger congestion and delay at many U.S. airports, by eliminating the need to be processed by INS upon arrival in the United States and by providing advance information to speed passenger processing by the other inspection services. Immigration preinspection, or full preclearance, by INS and Customs are not feasible in all cases, but where traffic volume justifies, where the enforcement risk permits, and where facilities and operating authorities are available, they should be sought.

AOCI supported the initiation of the preinspection test conducted in London earlier this year. We believe that the test was a success and INS should resume preinspection at London as a permanent program and examine the cost-effectiveness of implementing preinspection at other locations abroad.

The London test was completed in January this year, and yet six months later, in the midst of the summer travel season, the Federal Government has not yet completed the evaluation we were told would be finished in the spring. We have asked the National Security Council, the Department of State and the Justice Department to expedite the current evaluation of U.S. immigration preinspection in London. To date we have had no response, and we encourage the Subcommittee to request that preinspection in London begin again as soon as possible.

We also believe that INS needs to reassess the amount of time that each INS inspector spends processing every individual "visa-waiver" passenger, which INS's own statistics show are the lowest-risk of all visitors to the U.S.

In conclusion, Mr. Chairman, AOCI takes facilitation very seriously. We support the federal inspection services in their efforts to perform their tasks effectively, but above all, efficiently. We look forward to working with you to improve and streamline the whole of the present federal inspection process.

I appreciate the opportunity to express our concerns and I would be happy to entertain any questions that you or other members of the Subcommittee may have. Thank you.

Senator ROCKEFELLER. Thank you, Mr. Elder. Mr. Norton.

STATEMENT OF RICHARD E. NORTON, DIRECTOR, FACILITATION, AIR TRANSPORT ASSOCIATION OF AMERICA

Mr. NORTON. At last year's hearing on foreign visitor facilitation, the Air Transport Association pointed to a number of factors that were inhibiting the growth of international tourism to the United States. Several of the goals suggested by ATA and other elements of the tourism industry were quickly achieved. But progress has been seriously undermined by a number of regressive steps that have raised new barriers.

The good news is that, ironically, funding is no longer an issue. The provision of the user fees for both Customs and Immigration have been changed and should give them plenty of money to hire new personnel. The visa-waiver program is about to be expanded to include at least 15 new nations, and INS is now under a mandate to inspect people within a 45-minute timeframe.

The preinspection program, as Mr. Elder pointed out, looks like it is on track, and the automated clearance process called Advance Passenger Information shows promise as well. However, despite the fact that many people may have decided to "Go USA," I know where they are waiting; they are still waiting in INS lines, where clearance times remain long.

The popular citizen bypass system has been eliminated. It has not been replaced by a program that has been effective, and the 60-percent increase in INS user fee this year has not materialized in the form of new staff. Visitors are being subjected to routine waits of 2 hours or more at New York- John F. Kennedy Airport, the Nation's largest entry point, and long delays are common at Los Angeles and Honolulu.

Senator ROCKEFELLER. And unnecessarily so.

Mr. NORTON. Yes. For the exact reasons that Mr. Elder described, that no selectivity is being used, citizen bypass has been eliminated, and the program that has been put in to replace it, the accelerated citizen examination, is ad hoc. It only goes into effect when it looks like there is going to be a crisis, and it is going to contribute to, rather than cure, the chaos that we now have at the airports.

Senator ROCKEFELLER. Why? I do not understand that.

Mr. NORTON. Well, under citizen bypass—

Senator ROCKEFELLER. No, I agree with your conclusion, but why would this happen? Why would this be done randomly?

Mr. NORTON. Good question. We have sought that answer ourselves, and we are not sure what the reason is, either. It would seem to make more sense to manage consistently rather than only when crisis prevails.

Now, Mr. Chairman, the air transport industry is doing its part to both promote tourism and solve airport inspection delays. As Mr. Elder points out in his written testimony, \$10 billion is being spent by the airports over the next 5 years on international facilities alone. We have not lost sight of how this country can benefit from growth in this form of trade, or how quickly we can lose it if exchange rates become less attractive and travelers then start choosing their destinations based on where they might be received with open-armed hospitality instead of chilly indifference.

Senator ROCKEFELLER. Incidentally, of that \$10.5 billion, do you know if any of it is coming from the Airport Trust Fund?

Mr. NORTON. I am not sure exactly what the figure is. Perhaps Mr. Elder would know.

Mr. ELDER. Yes, sir. There should be some of that coming from the trust fund.

Mr. NORTON. Now, there are many examples of the industry's commitment. We are spending a significant part of a \$1.5 billion industry advertising budget to encourage U.S. tourism. Such private-sector efforts translate into an increase in Federal and State and local revenues. In fact, foreign tourists contributed an estimated \$4 billion to these coffers last year.

However, the facilitation fee enacted last year to pay for the USTTA, a fee that nobody likes, is a cruel burden to place solely on the backs of air carriers and sends an unseemly message to tourists that they must pay for promotional endeavors in behalf of U.S. tourism.

Another example is the API program that I mentioned earlier. This is not the world's biggest paperweight. This is a very small device that actually reads machine-readable passports. We are using this in conjunction with a program sponsored by the Customs Service, and it automatically captures all of the information needed to speed up the inspection of most travelers because so many of them are now carrying those machine-readable documents.

This is the future of international passenger processing, and a future that carriers are willing to invest in. But its expansion is being unnecessarily limited by conflicting provisions in other law.

Senator ROCKEFELLER. You mean laws that could be changed? You are not talking about rules and regulations.

Mr. NORTON. No, it appears that it would require a small legal change to the Aviation Security Act, and I will mention that in a moment.

These impediments must be addressed, and we believe that top-level attention has to be drawn to the need for a system that encourages foreign visitors to come to the United States. The industry urges that a number of steps be taken.

First, repeal the USTTA facilitation fee. It imposes a charge on the carriers for each foreign visitor that we bring to the United States. The fee violates the provisions of the Chicago Convention, it places the entire burden of the USTTA budget on the airlines, and it sends an offensive message to prospective travelers and their governments.

We do not oppose the existence of USTTA; just the fee. It stands in the way of the type of productive private sector-Government re-

relationships that you have described as an essential ingredient in the tourism recipe.

Second, consistent with the national goal of maximizing a tourism trade surplus, we ask that a followup be made on the March 1991 GAO report by expanding section 6 of S. 680. We suggest that the Secretary of Commerce be charged with developing a consolidated strategy to eliminate the facilitation problems.

Governor Waihee has also submitted a written comment for the record, and he agrees that we should ask the Secretary of Commerce to consult with other Departments and produce suggestions that show the statutory, organizational, and fiscal changes needed to ensure that visitors are handled efficiently.

Next, we urge that INS, meanwhile, adopt a realistic system of inspection. I do not want to cover the same ground that Mr. Elder covered, but selectivity is clearly something that is used elsewhere, and it is ludicrous to apply a 100-percent query system at an airport.

There are 350 million people admitted across the land border every year, compared to about 40 million visitors at our airports. Those people are waved through. Why, in the face of airlines security and all the other measures to prevent abuses of the travel system, do we face this crisis at airports? It is ludicrous.

We also ask that the Department of State be urged to promote and support the establishment of additional preinspection sites and provide that Department with the means to improve the security of U.S. passports so carriers will not be victimized by inadmissible passengers.

And finally, relative to your question regarding advance passenger information, some minor changes need to be made to the Aviation Security Act of 1990 that would permit API, an existing Government-sponsored program that clearly expedites the inspection of travelers, to be substituted for the less precise passenger manifest requirements that were passed as part of the ASA.

Mr. Chairman, we really appreciate the opportunity to share these views with you on these issues of vital economic importance to the country. Your interest in what has grown to be one of America's largest exports, the U.S. surplus of trade and international tourism, is sincerely appreciated.

We are confident that these hearings will once again lead to major progress on the stubborn problems encompassing foreign visitor facilitation.

[The prepared statement of Mr. Norton follows:]

PREPARED STATEMENT OF RICHARD E. NORTON

My name is Richard E. Norton, and I am the Director of Facilitation for the Air Transport Association of America (ATA). On behalf of the U.S. major scheduled airlines, the ATA once again welcomes this opportunity to present the industry's opinions on the status of foreign tourism to the United States. We would also like to give an overview on the proposed plan to further analyze tourism trade barriers, as put forth in pending bill S. 680. These issues are of vital economic interest to the carriers, and further growth in the international traffic is critical to the overall financial health of the 700,000-person tourism industry.

Nearly one year ago this subcommittee conducted an important, in-depth examination of the factors that were inhibiting the expansion of international tourism to the United States. ATA and other organizations presented a critical picture of government barriers that stifled growth, but also tendered an agenda for improving the situation. Several of those goals were quickly achieved; others show signs of coming

to fruition in the near future. Some, unfortunately, have been undermined by regressive steps that have inflicted further damage.

I. ACCOMPLISHMENTS IN VISITOR FACILITATION, 1990-1991

- *Expansion of the visa waiver pilot program.* U.S. tourism growth is not attributable to any single factor. It is a phenomenon that has been helped by favorable exchange rates, a generally strong world economy, availability of reasonably priced transportation, and fewer travel barriers. In this latter category, nothing compares with the visa waiver program for having stimulated interest in travel to the U.S. In a few weeks, the original list of eight participating countries will be expanded to include other low-risk nations that show reciprocity for American citizens. Adding such countries as Belgium, Denmark, Norway, New Zealand, and Spain means that by 1992, nearly 70 percent of all foreign visitors will be entering under the conditions of this "win-win" program.

- *Changes to the Customs User Fee (COBRA) Account.* The removal of certain restrictions on the expenditure of user fee revenues has allowed the Customs Service to hire 260 new officers and upgrade technology at the airports. Efficient use is being made of these resources, which have been fused with effective operational procedures that have served the public well: enforcement has improved, and passenger delays that can be attributed to Customs have been minimized.

- *Changes to the Immigration and Naturalization Service Inspections User Fee Account.* Last summer was infamous for the long waits passengers had to endure for immigration clearances. The bleak situation described last year to this subcommittee rapidly deteriorated; by the end of the tourist season the fifteen airports that handle 95 percent of the international traffic to the U.S. were suffering regular delays of two hours or more. It was clear that worldwide publicity about the needless delays would do permanent damage to U.S. tourism if allowed to continue.

Congress acted decisively last October to correct this problem, making modifications to the INS user fee that have increased revenues significantly. By removing the exemption for traffic from Canada, Mexico and the Caribbean, the INS inspections budget will rise from \$110 million in 1990 to an estimated \$205 million in 1992—nearly enough to double the number of immigration inspectors.

- *Adoption of the 45-minute standard for immigration clearance.* In concert with the immigration user fee change, Congress also mandated that all passengers be inspected by INS within 45 minutes of arrival. By adopting this recommended practice of the International Civil Aviation Organization (ICAO), an unmistakable signal has been sent all parties that the U.S. government would no longer condone a tacit policy that showed little concern for how long it took visitors to go through the inspection process. As Ed Book of the Tourism Industry Association termed it, the U.S. could not afford to be regarded as "the Marie Antoinette of international tourist destinations."

II. RECENT PROGRESS ON FACILITATION ISSUES

- *Immigration Preinspection Test in London.* Another solution to visitor facilitation that was suggested at last year's hearing was to expand the INS preinspection program to several of the large hubs overseas. INS has vigorously pursued this initiative, and completed a highly successful test of the concept this past January at Heathrow and Gatwick, London's two main international airports. The four month experiment involved 380,000 passengers who waited an average of only 6 minutes for clearance. The program was judged an unqualified success by passengers, airports, participating carriers, and the British Government.

The air transport industry cannot overstate the importance of the preinspection program. Now, even the skeptics are among the ranks of the true believers. The reasons are numerous: travelers save time, airlines avoid delays, U.S. arrival halls are quickly emptied of preinspected passengers, and immigration enforcement is measurably enhanced. If bureaucratic hurdles can be overcome (a big "if") to the extent that preinspection can evolve into a permanent program in London and other major European sites, facilitation delays for transatlantic passengers will be rare.

- *Expanded use of Advance Passenger Information.* Recent events have clearly demonstrated that growth in international traffic cannot be met with the old solutions. Relying on a strategy of building large new facilities to handle peak-hour congestion or hiring more and more officers to fill nonexistent inspection booths is futile. As the General Accounting Office (GAO) has reported, altering airline schedules or trying to steer passengers to alternative arrival sites is an ineffective approach as well. Although preinspection seems to be a more attractive alternative if it is put in place at the largest of the overseas embarkation points, it is too costly to be employed everywhere.

Last year ATA presented an option for conducting entry formalities in a less obtrusive, more cost effective manner: moving from labor intensive, hands-on inspectional methods to a system that places greater emphasis on automation. This system, known as Advance Passenger Information (API), is beginning to reveal a picture of how passengers will be treated in the 1990s.

API is an outgrowth of a Customs enforcement program that was designed to check federal lookout databases before a passenger arrived in the U.S. An important breakthrough occurred last year when INS and Customs agreed to expedite the inspection of travelers who had been pre-checked under API. The results have been dramatic; passengers who have been processed under this system move through airports in half the time.

Only 3 percent of inbound visitors and citizens are handled in this way, but the program is undergoing rapid expansion. A year ago only one carrier was experimenting with API; now, four U.S. carriers and several foreign airlines are furnishing API in behalf of travelers arriving in Los Angeles, San Francisco, Honolulu and Chicago.

We are optimistic about the future of this program for two reasons. First, most travelers now possess "machine readable" travel documents (MRDs) which contain most of the data needed to automate the inspection process. About ninety percent of U.S. citizens and virtually all Canadians and Australians travel with machine readable passports; an increasing number of European Community nationals have compatible documents also. Second, the technology needed to take advantage of the MRDs is evolving rapidly. The compact device that is used to capture API data—about the size of an electric pencil sharpener—has other purposes that speed up check-in tasks: it can read information contained on the magnetic stripe of a credit card or ticket, and it can verify the validity of travel documents. As these and other capabilities are built into such a small mechanism, the potential for growth of the API program will increase dramatically.

III. SETBACKS TO FOREIGN VISITOR FACILITATION

Although the above accomplishments represent a significant part of the agenda offered to this subcommittee last year, much of the progress that could have been achieved has been negated. Data collection requirements have been imposed that are incompatible with API; INS hiring has been delayed; the INS/Customs citizen bypass system, which ameliorated some of the delays caused by under staffing, has been eliminated; cooperative programs between INS and the carriers have been stalled; and, most egregiously, a fee has been adopted that forces carriers to pay a surcharge for each foreign visitor that is brought to the United States.

- *The USTTA Facilitation Fee.* Perceptual barriers to efficient travel are a proven means of diminishing tourism; airport delays, cumbersome visa procedures and inadequate facilities can all play a leading role in steering tourists to more hospitable environs. Now we can add to that list an onerous fee that has the effect of taxing each foreign tourist for visiting our country. Officially known as the USTTA Facilitation Fee, this tax is levied on carriers in proportion to the number of foreign tourists that are transported here. To potential visitors it is regarded as an unseemly attempt to have them fund the functions of an agency that has no bearing on their voyage, and does little to facilitate their entry.

From the carriers' viewpoint, there are three reasons why we believe the fee should be repealed:

- The fee singles out the financially troubled airline industry. Carriers will bear almost the entire burden of underwriting the \$20 million annual USTTA budget. Last year, U.S. airlines alone lost well over \$4 billion, and 40,000 employees have lost their jobs. The combination of high fuel costs, the threat of terrorism and an unstable economy were devastating. Under these circumstances it is impossible to see the rationale for charging carriers while exempting by omission the thousands of businesses that benefit from tourism spending. The fee, which will be added to the \$6 billion that is already being paid in taxes and other charges, will come straight out of the industry's pocket, necessitate higher fares and further close that narrow margin of profit within which the industry operates in the best of times.

- The fee violates the 1944 Convention on International Civil Aviation ("Chicago Convention"). This treaty, to which the U.S. is a party, prohibits the collection of a fee that has no relation to services actually provided to arriving passengers. Congress recognized the possibility of this conflict with international law [see Sec. 306(b)(2)(A)], and the USTTA has attempted to hide the evidence that would fuel the controversy by trying to forbid carriers from showing the fee on the ticket—a ban which, we believe, violates the First Amendment to our Constitution as well. Carriers of all flags remain convinced that the Chicago Convention prohibition is ab-

solute. Most airlines serving the U.S. (and all ATA carriers) have informed the Department of Commerce of their position, and have asked the USTTA to rule the fee illegal and inapplicable in accordance with the escape clause in the legislation.

- The fee, if ruled legal, is an open invitation to expand the USTTA budget at no expense to the government. The \$1 fee prescribed for 1991 may seem innocuous, but it may be increased by the Secretary of Commerce to cover any new appropriation level set by Congress. The prospect for a substantial fee increase is highly probable: the USTTA will need resources to handle casework generated by claims that fees violate various bilateral agreements; many foreign carriers will be granted exemptions due to such conflicts; and efforts will be made to increase funding for government-sponsored promotion of tourism. The cumulative effect will be to concentrate the increasing burden of a larger USTTA budget on U.S. carriers alone. We can foresee the day of a \$3 or \$4 Facilitation Fee as being just around the corner.

- *Passenger Manifest Retirement.* As part of the Aviation Security Act of 1990, a provision was included that requires carriers to collect a name, passport number, contact name and contact telephone number for each international passenger. This well-intended step did not recognize the precedent being set by the API program, which has different data requirements. Carriers wishing to expedite international passengers must collect name, passport number, date of birth and citizenship (all of which may be quickly scanned from the machine readable passport into a record for routine use by INS, Customs, and other federal law enforcement agencies). Conversely, carriers mandated to comply with the manifest requirement must manually compile contact information—unverifiable details that do a less complete job of identifying passengers than the API program does, that is useful only in extremely rare circumstances, and, due to the manual steps necessary to accumulate such a record, will be very costly to carriers.

- *Elimination of INS Citizen Bypass at Airports.* The long delays that focused the inspection problems so vividly last summer were due to a variety of elements, but no factor was as pivotal as the decision by INS to eliminate citizen bypass. The system had been in effect for over a decade, but had been abolished at most locations during 1989 and early 1990 because INS distrusted a procedure that split responsibility for a passenger's immigration inspection between INS (which inspected aliens) and Customs (which handled returning U.S. citizens). When traffic grew and INS hiring was stalled, the absence of bypass served as the last straw that doomed arriving passengers to multi-hour queues.

Unfortunately, INS has exacerbated the situation by cutting out bypass last January at the last two—and biggest—international airports, New York's John F. Kennedy (JFK) and Miami. While the agency is reportedly amidst an intensive hiring program, it has enhanced last year's work force only by about 15 percent to date (in contrast, the INS user fee budget rose 60 percent this year, and will be 80 percent above 1990 levels by FY 1991). Such an augmentation is not likely to make up for the congestion created at terminals such as those operated by TWA and Pan Am at JFK, which had been purpose-built to accommodate bypass.

Under pressure to reinstate bypass, INS recently announced the Accelerated Citizen Examination program (ACE), which is designed to speed up the inspection of returning citizens on occasions when it appears that the 45 minute standard will not be met. The industry is deeply concerned about the ad hoc nature of ACE, and has urged INS to adopt its features at all times.

Adopting ACE as a full time measure would be a gesture in the right direction to the traveling public. It would demonstrate that INS is willing to examine methods of accomplishing an immigration inspection that are more reliant on automation and law enforcement profiling techniques, and less on the agency's historic orientation toward a larger work force. Such a direction would make INS less vulnerable to the chronic holdups, turnover and attrition that are inseparable aspects of the federal employment system. Furthermore, it would give the agency the flexibility needed to handle traffic peaks without jeopardizing compliance with the 45 minute standard. Absent decisive moves by INS to remedy its debilitating stance toward facilitation, the industry will continue its public efforts to inform travelers of the reason why their clearance takes so long.

IV. RECOMMENDATIONS OF THE AIR TRANSPORT INDUSTRY

- *Expand the scope of the actions required of the Secretary of Commerce.* The bill currently under review by the subcommittee, S. 680, directs the Secretary of Commerce to identify policies of foreign countries that are barriers to U.S. travel and tourism exports. Furthermore, it charges the Secretary with taking "appropriate action to ensure that foreign tourists are not unnecessarily delayed when entering the United States." These actions would be taken in furtherance of a national goal to

reduce the trade deficit through an increase in export earnings from travel and tourism.

This ambitious objective could be best served if additional emphasis were to be placed on solving the persistent problems travelers face when trying to enter the U.S. As we have seen over the past year, money is less of an issue than it has ever been, thanks to user fee modifications; however, the availability of funds has not cured the delays or forced the various federal agencies to work together. The March 1991 report on foreign visitor facilitation by the General Accounting Office yields valuable insights into the nature of the problem, yet stops short of endorsing a broad initiative to settle the internecine disputes over agency roles.

The economic stakes are too high and the alternatives available to prospective tourists too numerous to allow the situation to continue indefinitely. Therefore, we urge the subcommittee to alter S. 680 and provide a broader imprimatur to the Secretary of Commerce—one that will mandate a specific series of steps that develop a consolidated strategy to eliminate the facilitation crisis. ATA believes that the Secretary of Commerce (along with the Secretary of Transportation) is uniquely situated to review the practices of other nations and explore alternatives with the Department of Justice, the Department of the Treasury, and the Department of Agriculture. The purpose would be to orchestrate the submission of a plan that identifies the statutory, organizational and fiscal changes needed to replace the archaic methods now used to clear passengers.

- *Make other statutory adjustments that would foster and encourage new facilitation efforts.* ATA requests that members work with their colleagues on other committees to remove certain impediments that cause financial harm to carriers, prevent expansion of facilitation programs, or block industry efforts to properly identify and screen travelers. These include:

- *Repealing the USTTA Facilitation Fee.* In previous years ATA has supported USTTA's efforts to provide services to the entire spectrum of the tourism industry. The leadership of the Tourism Policy Council, the production of statistics that give insights into the nature of U.S. tourism, and the direction of the port receptionist program are all worthwhile endeavors. When placed in the position of "owning" the USTTA—however reluctant and attenuated that proprietorship is—carriers must candidly assess the direct cost benefits they receive from such enterprises. The USTTA may be a visible cog in the machinery of national tourism policy, but it provides little added value to the business of international air transportation.

That value is provided instead by heavy private sector promotion. This year alone, airlines will spend a significant part of a \$1.5 billion advertising budget to encourage international tourism. They will be joined by hotels, resorts, amusement parks, recreational facilities, tour operators, cities, states and other elements of the transportation industry, all of which champion the cause of U.S. tourism with proven results.

We urge the committee to revert to a system that recognizes the USTTA as an instrument of broad national tourism goals—one that is funded strictly by appropriation, is unencumbered by a budget dependent on a fee that violates an international treaty, is accountable to Congress in its traditional oversight capacity, and does not tax carriers in order to replicate ongoing industry promotional efforts. This can only be accomplished by replacing the "Facilitation Fee" with an unlinked appropriation.

- *Converting the Department of State passport issuance system to one that is user fee based.* Although the U.S. is among the leaders in conversion to machine readable travel documents, our passports remain vulnerable to abuse by unscrupulous passengers. Cost concerns have impeded the adoption of security laminates and other tamper-resistant controls that are used by other nations to make fraudulent and altered passports easier to detect. A changeover to a reimbursable fee account would help alleviate the financial constraints imposed by the appropriations process.

- *Altering the Aviation Security Act of 1990 to authorize other data as an acceptable substitute for the act's less accurate passenger manifest requirements.* As described above, the new act imposes a data collection requirement that is not compatible with the more comprehensive and highly facilitative Advance Passenger Information program. ATA asks that the law be modified to acknowledge the internationally recognized API program as an alternative.

- *Encouraging the Department of State to support the permanent expansion of preinspection.* The huge success of the London trial demonstrated how a full time program can minimize habitual delays for visitors; in fact, an ATA survey showed an average INS clearance time of just 6 minutes for preinspected passengers. In view of such results, it is certain that the expansion of preinspection to large overseas embarkation points will have a positive impact on delays encountered at the domestic end.

Thank you, Mr. Chairman, for this opportunity to share the views of the air transport industry on this extremely important matter. Your interest in what has grown to be America's largest "export"—the U.S. surplus of trade in international tourism—is sincerely appreciated. We are confident that these hearings will once again lead to major progress on the stubborn problems encompassing foreign visitor facilitation.

Senator ROCKEFELLER. Thank you, Mr. Norton.

The testimony is very interesting to hear. It could be cut off or submitted by most of you, but I have wanted to hear it, because your frustration comes out, and the little individual bits and pieces that make something stop here that would be so easy. You know, that machine. I have never seen it. What percentage of passports, of visas, could that do?

Mr. NORTON. That could do 90 percent of U.S. passports and virtually all Canadian and Australian passports, and an increasing percentage of the EC passports.

Senator ROCKEFELLER. And so we have a law which in effect precludes that from happening? That is called stupid.

Mr. NORTON. It precludes its rapid development; yes, sir.

Senator ROCKEFELLER. Do we have, in fact—asking all of you—the slowest processing system in the world for international visitors?

Mr. NORTON. Without insulting any particular nation, I believe there are some Caribbean nations that may have some slowness to their process. Perhaps they could be speeded up if that passport was required, but of the modern industrialized nations, yes, we have by far the most archaic method of processing passengers.

Senator ROCKEFELLER. And just give me your philosophical reason as to why you think that is so. Why are we just so unbelievably—in such an enormous industry—Allan, you handle this one. In such an enormous industry, why are we do counterproductive, sticking our feet in our face?

Mr. MENDELOWITZ. It is an excellent question.

Senator ROCKEFELLER. Is it the nature of Government, Allan? Surely you cannot believe that.

Mr. MENDELOWITZ. No, I was thinking that maybe we have the view that everyone wants to come here.

Senator ROCKEFELLER. Just like our view of trade in general, exporting in general.

Mr. MENDELOWITZ. Yes.

Senator ROCKEFELLER. We think we are just so wonderful that people are just thrilled to be here; and unfortunately, the statistics validate that. No matter how shabbily we treat people, they insist on coming here. [Laughter.]

Mr. MENDELOWITZ. What an endorsement that is.

Mr. NORTON. Imagine how many would come if we did treat them well.

Mr. MENDELOWITZ. Yes.

Senator ROCKEFELLER. Just the four of you, just tick off some things that could be done. I mean, that machine, that is just stunning. You said 90, 95 percent of at least three countries.

Mr. NORTON. Yes. If you were to compensate for how many visitors have this type of passport. Right now I would say that easily 55 percent of the world's travelers to the United States could be expedited this way.

Senator ROCKEFELLER. Of all the world's travelers, could be helped by that.

Mr. NORTON. And soon the figure will be 75 percent.

Senator ROCKEFELLER. Yes. What are some things that other countries do that we ought to be doing that facilitate this process?

Mr. ELDER. Senator, I think we can go back to some of the things that we were doing. Obviously, we would like to see citizens' bypass in effect again. I do not know that we are going to get to that point, but even if we have the ACE program, to put the ACE program—

Senator ROCKEFELLER. What are the downsides of that? How would people argue for not making—

Mr. ELDER. We understand, especially from our meeting yesterday, that we are at a national security issue here. You asked a question earlier about why the randomness of this, and that seems to be where it is centered, in the fact that there seems a higher level of security—that is the thinking, anyway—when you have nonpredictability of these type of checks, as opposed to having a designated line set up 24 hours a day for this.

If we were to go to that tomorrow morning, we would alleviate a lot of problems. The preinspection, I think, is one of the things that we should move on the absolute fastest because of a couple of reasons. No. 1, you are using the international travel time on the departure end, which is used for nothing else but waiting. So, use it so that you do not have to use it in our long lines in our airports.

Senator ROCKEFELLER. Realistically, in effect, if we did that, if we put that into effect, what kind of time would we save for people?

Mr. MENDELOWITZ. People would get off the planes in this country and proceed to their destinations as if they had started out from a domestic point of origin.

Mr. ELDER. That is right.

Mr. MENDELOWITZ. Flying from London to New York—

Senator ROCKEFELLER. Why do we not do it? Why are we not doing it?

Mr. MENDELOWITZ. Well, I remember we queried the agencies as to why they did not expand this preinspection system, and one of the answers we got back was that it is expensive to post personnel overseas, and because of the added expense of posting personnel overseas, they were not enthusiastic about expanding the program.

Mr. NORTON. I think the revenue is there, especially with the user fees. We are encountering more bureaucratic resistance than anything else. I think it is Secretary Baker that would have to be convinced that this is a worthwhile program and one that should be expanded despite the policy that is to minimize American presence overseas at the embassies. We think that in places like London that is a silly argument, and the State Department has to be convinced that it is a worthwhile program.

Senator ROCKEFELLER. He should be a soft touch, do you not think?

Mr. MENDELOWITZ. There is also, I think, a sensitivity issue, because what we are doing is we are exercising—

Senator ROCKEFELLER. Which issue?

Mr. MENDELOWITZ. A sensitivity issue with respect to foreign sovereignty. What we are talking about is asking other countries to allow us to post our officials to perform a U.S. Government function in the sovereign territory of another country.

Senator ROCKEFELLER. But your studies did not indicate any problem there. Is that false sensitivity?

Mr. MENDELOWITZ. Well, there were some countries that did not view that as a problem, but if I remember from the work that we did there were some countries that were reluctant to have U.S. Government officials performing official Government functions on their territory.

Mr. NORTON. Senator, if I could?

Senator ROCKEFELLER. Yes, please.

Mr. NORTON. We have already had inquiries from the Dutch Government, the German Government, the British Government, and the Belgian Government, all of which form a significant base of traffic—25 percent of the transoceanic visitors to the United States come out of London. So, if we had preinspection—

Senator ROCKEFELLER. Just do that.

Mr. NORTON [continuing]. At just those locations that have expressed interest, then we would certainly carve a significant chunk out of our problem.

Mr. MENDELOWITZ. Sure. I agree.

Senator ROCKEFELLER. What are the consequences, let us say, when are we get to be 70 or 90 million visitors? By what year?

Mr. NORTON. Before the end of the decade.

Senator ROCKEFELLER. Before the end of the decade we will be at 90 million, you predict?

Mr. NORTON. Yes. We feel the traffic will double by then.

Senator ROCKEFELLER. So, the budget crisis is not wandering away, so we have to act, right? I mean, it will be twice as awful—2 hours will become 3½. That is twice 2 hours; is it not? [Laughter.]

It is amazing, Allan; it is just amazing about America. We are meant to be such practical people, and adaptable, and we get into something which is so much in our self-interest, we deliver ourselves of the full \$14 million to promote our country. I was just thinking that West Virginia spends exactly \$1 million less on marketing than does the United States of America.

Mr. MENDELOWITZ. If you remember my testimony earlier in the year on export promotion, I talked about these funding anomalies. I talked, for example, about the Targeted Export Assistance Program over at the Agriculture Department. Agriculture gave Sunkist \$9 or \$10 million in 1 year to sell Sunkist overseas, so that is more than two-thirds of what USTTA gets to sell the whole country.

Senator ROCKEFELLER. But what is the mindset? Whose button has to be pushed? Is it the Secretaries? What has to happen? Just tell me what has to happen.

Mr. MENDELOWITZ. I think there are two separate issues. One is the issue of what is the appropriate level of Government assistance with respect to tourism promotion and how should it be funded and at what level it should be funded.

The second issue is the issue of, given the whole series of Government activities that we are doing, for example, facilitation and inspection at airports, what can we do to improve that, shorten the time.

I think that the second issue is sort of an easier one to deal with because it is an organizational and bureaucratic issue. We have a number of different agencies all functioning together at the airport. INS is an agency of the Justice Department. Customs is an agency of the Treasury Department. APHIS is an agency of the Agriculture Department. Public Health is an agency of the Health and Human Services Department.

Whenever you have multiple agencies all rubbing shoulders together in close proximity, doing different things, it is very hard to come up with a simple, easy, pragmatic solution because each agency is primarily driven by the laws that it is required to satisfy.

One of the explanations we were given, for example, why citizen bypass was eliminated had to do with the adoption of selectivity by the Customs Service. Customs formerly inspected everyone. During the period when Customs was inspecting everyone, INS said that they could go with citizen bypass because the Customs inspectors could also look at the passports and ensure that these were valid passports.

When Customs went to selectivity, INS concluded it had an enforcement problem, because that meant no one was going to look at the passports. So, it suspended citizen bypass and went back to a procedure in which an INS inspector looked at each individual passport.

Well, you have nobody in charge, because you have multiple agencies, multiple laws, and everybody trying to do what they are supposed to do under the law. As long as you have that situation and you have no one in charge, you have problems—even with the best efforts at cooperation, and there have been a lot. You know, we have this Interagency Border Inspection System, this single query system, and there has been a lot of progress with the agencies working together to eliminate overlap and to eliminate unnecessary delay. But there is still a long way to go. So, that is one issue.

Senator ROCKEFELLER. Can I just get with Rick on that one? Now, you are aviation director, right? I mean, you are in charge of that at Dade County.

Mr. ELDER. Yes, sir.

Senator ROCKEFELLER. I mean, you go in and you raise hell with these four Federal agencies, which I assume you do—effectively. What happens? Nothing happens?

Mr. ELDER. No, sir, that is not the case. Actually, to follow up what Allan was saying, we have been working with the other agencies now for several years, and we have gotten good cooperation from these other agencies.

Senator ROCKEFELLER. Between them? Each of them?

Mr. ELDER. Yes, sir.

Senator ROCKEFELLER. And you had to force that?

Mr. ELDER. Well, I do not know that we have had to force it. I think it is just all they have realized that everybody has got to get on board and work as team, because we are all losing this ball

game. For example, with Customs, we have Customs now coming to us with suggestions for facilitation to move things around to make it better, as opposed to us going to them and saying, "We have backups, guys, what are we going to do about it?"

The one group that we cannot seem to get on board with us as a team player is INS. They refer back to, well, we have this law we have to follow, and if you want us to change, you have to change the law, particularly in the area of 100-percent query of all passengers.

I think the law has been misinterpreted. The 100-percent examination does not mean that you have to spend 2, 3, 4 minutes with each one of these people. It just means that you have to confirm, at some level, that they are acceptable to the United States, and we have the mentality of knowing that there is one-tenth of 1 percent undesirables out there. So, in order to catch that one-tenth of 1 percent, we are going to check everybody.

Senator ROCKEFELLER. Allan, I interrupted you, and I want to let you continue. Then we are going to have to stop. How much can we do here in Congress to correct this? How much is it us, as opposed to getting Secretary Baker's attention or whatever?

Mr. MENDELOWITZ. I think it is a lot of little things. For example, this discussion about the value and contribution that preinspection at overseas airports can contribute is really important. That is not something that requires a legal change. It requires a policy change on the part of the State Department and the agencies involved. They have to be willing to change their attitude toward posting Americans overseas. It is a small thing. It does not require a change in law, but it would make a big contribution.

Senator ROCKEFELLER. Do you know, has anybody ever gone to Secretary Baker or his predecessors with this problem?

Mr. NORTON. Well, the key is a study that is about to be released on how well London ran. That is supposed to predicate a decision by the Government to go ahead with preinspection at several other locations. So, as soon as that report is released, it would signal our efforts to see to it that they move forward quickly.

Senator ROCKEFELLER. And "they" being?

Mr. NORTON. The Government. The Department of State.

Senator ROCKEFELLER. The State Department, yes.

Any final frustration? [Laughter.]

I mean, this really is absurd, is it not? It really is absurd. Somebody wants to hand you a pot of gold, and you just cut a hole in the basket.

Mr. CONNER. Well, it seems to me that the buzzword of the 1990's and the activity of the 1990's throughout corporate America, for what it is worth, largely rests with an emphasis on total customer satisfaction. There are many companies that over a period of time have become very good by virtue of their standard operating procedures and their SOP's and their rituals that they live by. And indeed, they are finding that they basically allowed us to facilitate our company's interworkings a lot better than they allowed us to take care of the customer.

And I have obviously from sitting here and really not knowing the subject as well as these three gentlemen, of facilitation into our country, these people are customers, and perhaps by virtue of the

numbers and dollars spent here, our best customers of this Nation as a product as a whole.

So, I think the process starts with a lot of training, orientation, and sensitizing of our own agencies and people to understand that, let us start all over, revamp the process, with the initial thought being, how do we totally satisfy these customers.

Senator ROCKEFELLER. And, of course, we have not even gotten to the other side of the Customs, the Immigration line, have we, where they are met by folks who take their bags or whatever. We have only gotten halfway through the airport in this discussion—taxi drivers and the rest.

Mr. NORTON. To Customs' credit, that end of the process is working very well, that selectivity that they are employing. We would agree.

Senator ROCKEFELLER. Well, let me thank all of you. This, for me, has been very, very helpful. It has crystallized a lot of frustration. That little box was very helpful to me. [Laughter.]

I now am going to go around thinking 55 percent of the world's problems can be solved by a little box that Mr. Norton brought in with him.

Allan, I guess you must be getting a little bit cynical testifying year after year about all of these problems and nothing happening, but maybe there is hope. It is a truly ludicrous situation.

On those stirring words, I will end the hearing, and thank you all very much.

[Whereupon, at 6 p.m., the hearing was adjourned.]

APPENDIX

JULY 10, 1991, PRESS RELEASE OF SENATOR ROCKEFELLER

WASHINGTON—Sen. Jay Rockefeller, D-W.Va., today continued his advocacy of a revamped national tourism policy focusing on tourism as an export as he chaired a hearing in the Subcommittee on Foreign Commerce and Tourism.

The senator called the hearing to obtain new industry recommendations on his "National Tourism Policy and Export Promotion Act," which he reintroduced in April. The legislation was last year approved by the Senate; according to Rockefeller, today's testimony is aimed at perfecting the bill and addressing concerns raised by some members of the House of Representatives.

"If we are going to ensure the vitality of the travel and tourism industry, then both the public and private sectors must join together to vigorously promote the United States," Rockefeller said. "And it is crucial that we support the U.S. Travel and Tourism Agency by providing it with a three-year authorization. However, I recognize that reforms are necessary if USTTA is going to be ready to meet the challenges ahead of us."

The senator said he is particularly interested in exploring proposals relating to issues such as visitor facilitation and barriers that keep U.S. companies from operating abroad. "These two areas are vital components of our national tourism policy.

"In the facilitation area, first impressions are indeed everything. It is imperative that the first impression a foreign visitor has of our country is a pleasant, effective trip through Customs and Immigration, without inordinate delays in clearing Immigration or receiving luggage." Rockefeller last year requested a report from the General Accounting Office on passenger facilitation and held a hearing on the subject.

John Brown, commissioner of West Virginia's Division of Tourism and Parks, testified about USTTA programs at the hearing. "Efforts to develop the tourism industry in West Virginia began in the late '70s under (then-Governor) Rockefeller," Brown noted, and went on to say that in 1990, travel and tourism ranked as the second largest employer in the state. "To assure continued growth of West Virginia's economy, we must assure the continued growth of travel and tourism through [promotion]."

He listed several of the state's promotional efforts, and reported an increase of as much as 200 percent in inquiries to the state's toll-free tourism hotline following advertising in 11 metropolitan markets, including six states and Washington, D.C.

However, he said, West Virginia is ranked 34th in funding of state tourism projects. "States * * * (such as ours) must have the support of USTTA to compete in the international tourism arena.

"The proposed marketing strategy for USTTA touts * * * partnerships [among] the federal government, the private sector, and the states and cities of our nation," Brown continued. "We in West Virginia are keenly aware of the value of such partnerships. Without [them], our tourism industry could not have reached the level that it has today. Furthermore, without such partnerships, we cannot expand and grow into the lucrative international markets."

QUESTIONS ASKED BY SENATOR ROCKEFELLER AND ANSWERS THERETO BY MR. KELLER

Question 1. What are your top priorities as Under Secretary?

Answer. In no particular order of importance, I want, first, to raise the level of awareness throughout the government and throughout the American business community of the contribution of the travel and tourism industry to economic prosperity, full employment and the international balance of payments of the United States.

Second, I want to ensure that USTTA does all that is possible to foster unity within the industry so that it can work together to meet the significant challenges and opportunities of the 1990's and beyond.

Third, I want to see our National Tourism Policy as set forth in the International Travel Act updated. Much has changed in the ten years since the Act was last amended, and America's tourism policy ought to reflect these changes. I intend to work closely with Congress to accomplish this.

Fourth, as Chairman, pro tem, of the Tourism Policy Council, I want to improve that group so that it functions less as an information sharing group, and more as a policy making, problem solving, and coordinating group.

Fifth, while most of the services that USTTA performs for American tourism are of the highest quality, I want to raise all of them to that level.

Sixth, I want to let all of our customers know that we are in the business of international tourism development not just international tourism marketing. I want to let all of them know of the number and quality of services that we provide: for example, working with the States and regions to effectively promote themselves to selected markets overseas, as well as working with industry to preserve environmentally sensitive tourist attractions.

Seventh, I want to ensure that international tourists are not unnecessarily delayed when entering the United States. The Tourism Policy Council, in my opinion, can take a great part in improving visitor facilitation.

Question 2. Would you please give us a rough breakdown of USTTA's Budget? How much is allocated for Washington, D.C.? How much is allocated for field offices?

Fiscal Year 1991 Budget

(Dollars in thousands)

	Amount
Field Offices	\$8,108
State Department and Foreign Service Support	1,284
Washington, DC (includes program funds for research, multilingual, and marketing)	5,205
Disaster Relief Grants	5,000
Total	19,597

Question 3. How many field offices does USTTA have? Where are they, and what are their staffing levels?

Answer. USTTA has ten field offices covering the ten foreign markets which account for 85 percent of all visitors who come to the United States every year. Nine of these offices are located in foreign countries and one is located in Miami, Florida. The Miami office serves five South American countries. USTTA plans to open an office in South Korea in 1992. Additional important markets in a number of European, Asian and Latin American countries are covered by other Commerce Department agencies, as well as the private sector, under USTTA leadership. Our ten current offices, their staffing levels, and budgets are as follows:

USTTA Offices

(Dollars in thousands)

	FTE	Amount
Toronto, Montreal and Vancouver, Canada	7	\$1,339
Mexico City, Mexico	7	784
London, United Kingdom	7	1,277
Paris, France	8	892
Frankfurt, Germany	7	1,033
Tokyo, Japan	7	1,102
Sydney, Australia	2	580
Milan, Italy	2	430
Amsterdam, Netherlands	2	345
Miami, Florida	2	328
Total	51	8,108

Question 4. What do the field offices do?

Answer. Following are descriptions of the programs and services performed by the ten field offices.

Market Analysis and Planning. USTTA provides market expertise and access for U.S. destinations and suppliers to enter foreign markets. Field office staff provide

up-to-date information on market conditions, marketing trends and cooperative marketing opportunities to U.S. travel industry constituents. The offices also produce marketing publications listing the travel industry and develop marketing plans for travel industry organizations and their consumers.

Cooperative Advertising. USTTA organizes and participates in advertising aimed at the international travel trade and the potential traveler. These cooperative consumer and trade advertising campaign activities are carried out in each of USTTA's principal markets. These projects vary from market to market and can consist of an advertorial, an advertising section or an insert in a magazine or newspaper. Television and radio can also be included in the media. Each field office is responsible for the development with media publishers or producers of the advertising program in its market. USTTA assists in solicitation of advertisers which consist of all travel sectors.

Tour Development. USTTA tour development assistance provides a structured system for getting U.S. tourism "products" to consumers in international markets. This involves developing new tour itineraries (packages) and securing their inclusion in major tour wholesalers catalogs. USTTA provides participating destinations or regions with market intelligence and implementing support/liaison services with tour wholesalers. This activity offers a mechanism for coherent development and marketing of new U.S. tour packages, within an established budget and implementation schedule. One of its primary objectives is to generate cooperative sharing of the financial resources of the U.S. private and public sector sellers with the international travel trade buyers. The result of this cooperative program is the expanded range of tours available to the international travelers to the United States, as well as increased marketing penetration for industry participants.

Travel Missions. Travel industry sales missions abroad represent one of the main promotional activities used by U.S. regions, states, and cities to introduce their destinations, attractions, and private sector travel services to international tour operators, wholesalers, and principal USA retail travel agents. USTTA provides to the mission organizer, current marketing intelligence, up-to-date travel mailing lists, media contact lists, and recommended public relations services. A mission may include trade shows and/or destination seminars.

Consumer/Trade Information Services. The field offices respond to inquiries from individual consumers and the trade via telephone, mail and personal contact. A library of information materials on U.S. destinations is maintained at each regional office along with schedules of major events, information on National Parks, campgrounds, sports events and theaters. Each field office also distributes USTTA produced brochures covering the entire U.S.

Trade Seminars. These seminars instruct the international travel trade about facilities, accommodations, attractions and transportation services within the U.S. Designed to increase the retail and wholesale trade's knowledge of and ability to sell the U.S. tourism product, USTTA training sessions are held both in the marketplace or on-site in the U.S.

Trade Shows. USTTA participates in and organizes local travel trade shows as marketing events through which U.S. suppliers can present their products to the international travel trade. Each field office reviews and advises on the viability of particular trade shows and coordinates space acquisition and allocation and dissemination of materials with the local industry. Some shows include ITB in Berlin, World Travel Market (WTM) in London, TIA/USTTA Discover America International POW WOW held in the U.S. and POW WOW-Europe.

Travel Agent/Tour Operator Educational Tours. In cooperation with U.S. destinations and travel companies, USTTA arranges and solicits trade participants (travel agents, tour operators) for product familiarization tours in the U.S. These tours acquaint planning and purchasing managers of tour companies with U.S. travel products.

Media Services. The USTTA media program is designed to generate media coverage to stimulate interest in and knowledge of the U.S. as a destination. Journalist familiarization tours are arranged by USTTA in cooperation with U.S. destination and travel service companies. These tours generate editorial media coverage in the marketplace and consumer demand for U.S. destinations and travel products. Special promotions are high visibility marketing events to increase U.S. destinations' exposure and introduce new destinations. USTTA provides basic public relations support to incoming travel missions and other industry cooperative programs. Public relations services for individual private sector programs are arranged by USTTA but paid for by the program organizer. Other media services include film/video/photo/slide libraries which are maintained by USTTA field offices for use by members of the media and travel trade for publications, tour itineraries, catalogs, etc. States

and cities are encouraged to provide USTTA with photos, slides, and other visual aids on their destinations.

Question 5. Where does the USTTA's budget rank in comparison with the tourism budgets of other countries?

Answer. According to the World Tourism Organization survey for 1988, the latest year for which figures are available, the United States ranked 28th in total national government spending among reporting countries. With the exception of Yugoslavia, these were all free world countries. Several countries believed to spend more than the United States, such as Mexico, France, Germany, Denmark, Sweden and Israel did not respond to the survey and are unranked. I would note, however, that from this number alone one can not determine a country's total tourism development and promotional expenditures nor even its foreign promotional expenditures. Unlike most foreign countries, our states expend vast sums on tourism promotion dwarfing USTTA's budget. Further, the American travel and tourism industry significantly outpends the states on foreign promotion. Finally, unlike most other countries, we use our limited Federal resources as a catalyst for additional state and private sector spending.

Question 6. What is the status of the disaster relief grant program?

Answer. USTTA published a notice of the availability of funds in the Federal Register on May 13. The notice announced the opening of the quarterly application period, which ended June 30, 1991.

Eleven applications have been received; they are currently undergoing review to assure that all elements of the application required for competitive evaluation are included. Upon completion of review, if an application is found to lack necessary data, the applicant will be notified and will have 10 working days to submit the required information.

At the conclusion of the 10-day window for submission of additional information, applications will be assembled and submitted to a panel of four independent judges for competitive review. Applications receiving a composite score in excess of 80 will be awarded. Final determinations and awards will be made by September 30, 1991.

Simultaneously, the second quarterly window for applications will close September 30, 1991.

Question 7. Has the National Transportation Facilitation Committee published guidelines on airport services?

The National Transportation Facilitation Committee is actively developing airport services guidelines which will be published by the Department of Transportation.

Question 8. Last year, at this Committee's hearing on visitor facilitation, the GAO recommended that USTTA develop a model for an international arrival facility. Has USTTA done that? If not, will it do that?

Answer. Based on USTTA's recommendations, the National Transportation Facilitation Committee and the Department of Transportation will develop a model for an international arrival facility. This model is expected to be completed in July 1992 by the Department of Transportation with input from USTTA and other committee members.

Question 9. At how many airports do you operate the Gateway Receptionist Program? What would be the cost of expanding that program to all airports with international arrivals?

Answer. We currently operate the Gateway Receptionist Program at twelve airports located at Atlanta, Baltimore/Washington, Bangor, Boston-Logan, Honolulu, Los Angeles, Miami, New Orleans, New York-Kennedy, Philadelphia, San Juan, and Seattle-Tacoma.

In order to expand this program to a total of 24 principal gateways and elevate the service to an effective level at the current gateways, an additional \$490,000 would be required.

Question 10. What are your reactions to the ideas put forth by the USA Marketing Council?

Answer. We are reviewing and considering them.

Question 11. Are you aware of the visa problem in Sao Paulo? Is there anything USTTA can do to prevent occurrences in other consulates around the world?

Answer. The Brazilian Travel Agents Association (ABAV) complained last month that the U.S. consulate in Sao Paulo, due to a shortage of personnel, had been forced to sharply reduce the number of visa applications processed on a daily basis. ABAV was especially concerned inasmuch as Brazil's peak travel period is June 25 to August 5. There are 3,400 seats, daily, northbound to the United States, with 60 percent of the passengers originating in Sao Paulo; however, only 500 visas a day were being processed by the consulate.

The visa issuance problem in Sao Paulo was resolved soon after the State department met with U.S. and Brazilian travel representatives. However, prevention of

visa issuance problems depends on whether the State Department has adequate staffing at the consulate in order to manage the increasing work loads at foreign embassies.

USTTA has included in the upcoming Tourism Policy Council's agenda the topic of visa issuance problems.

Question 12. How is the tourism industry doing in 1991? Do you have any figures for the first quarter or first half of this year?

Answer. The best source of data for the number of visitors arriving the United States each quarter is the Immigration and Naturalization Service (INS) 1-94 survey of international arrivals. Unfortunately, the INS recently changed the contractor who processes the 1-94 forms and this has given rise to some programming problems which has made 1991 data from INS unavailable. The problems are close to being solved.

The second best source of data is the INS 1-92 survey of cabin crews. The cabin crews are asked to estimate the number of passengers on their planes and the number of U.S. citizens and non citizens. Obviously, this data is not as accurate as 1-94 data. Further, it consists only of air arrivals from overseas countries and Mexico. Thus, all Canadian traffic and Mexican land traffic are excluded. For the first quarter of 1991, it is as follows:

Month	International arrivals in 1991	Change since 1990
January	1,180,280	+1.3%
February	876,173	-16.5%
March	1,229,794	
January-March	3,286,247	-4.5%

I believe a large portion of the falloff for the month of February this year as compared to February of last year can be attributed to the Persian Gulf conflict.

Question 13. What impact does USTTA have on federal and international travel and tourism policy?

Answer. The Under Secretary of USTTA is the Vice Chairman, and Chairman pro tempore of the Tourism Policy Council (TPC), an interagency council established by the National Tourism Policy Act of 1981. The purpose of the Council is to coordinate programs, policies, and issues related to tourism in order to assure that the national interest in tourism is fully considered in Federal decision-making. As the Chair of this Council, USTTA helps to bring issues to the attention of—the Council meetings and to help resolve the problems involved. For example, USTTA has supported the extension and expansion of the visa waiver program which is administered by the Departments of State and Justice. The Council has several committees that work to further the Federal travel and tourism policy. These currently include committees on Trade Barriers, Facilitation, and Rural Tourism. Other members of the Council include Cabinet or subcabinet representatives from OMB, as well as the Departments of Energy, State, Interior, Labor, Transportation, and Agriculture.

USTTA, through the TPC and other policy activities, advises and helps State and Transportation in negotiating liberalized civil aviation agreements by promoting and focusing the benefits that the United States and other countries will derive through expanded international visitation aided by improved air transportation. We also work with the U.S. Trade Representative (USTR) and the State Department in seeing that tourism services benefit from trade agreements, such as the GATT service negotiations, the North American Free Trade Agreement, the Canadian Free Trade Agreement, and the various recent trade agreements with the Soviet Union and East European countries.

Furthermore, USTTA represents the United States at various international and regional organizations that deal with tourism. For example, USTTA has served on the World Tourism Organization's Executive Committee for the past two years. We attend regular meetings and participate in panels and working groups. USTTA also serves on the Organization of American States' Interamerican Congress on Tourism. Depending on budget and staff availability, USTTA participates in the Organization for Economic and Cooperation and Development's Tourism Committee. USTTA is working on the bilateral and multilateral bases to improve the quality and availability of statistics and data on travel and tourism.

Also, we negotiate bilateral tourism agreements and Memoranda of Understanding (MOU) with the official tourism organizations of other countries in order to facilitate enhanced levels of travel and tourism. A recent example of this work is an MOU we have just signed with the Government of Greece.

Question 14. Do you see new, emerging markets around the world for U.S. tourism exports?

Answer. Yes, I believe that there are several new emerging markets. For example, Korea, the Scandinavian bloc countries, and Brazil, Argentina, and Venezuela are markets which show increased potential for U.S. tourism exports. USTTA will be closely monitoring the newly open markets in Eastern Europe, including the USSR, which could develop into major growth markets over the next few years.

Question 15. What kinds of barriers exist to U.S. tourism exports? Is anything being done to eliminate these barriers?

Answer. The primary barriers the United States faces from other countries to tourism exports are restrictions placed on the travelers. These often take the form of travel allowance restrictions (TARs), excessive departure fees, advance deposit requirements, exit visa requirements and excessive fees for passports and other necessary documentation. These restrictions often result from economic difficulties in other countries and so vary in duration. Examples include France prohibiting the use of credit cards abroad and Korea prohibiting foreign travel by persons under 55 years of age. The most common restrictions are travel allowance restrictions which impose limits on spending abroad for travel and tourism. The restriction level might vary with the purpose of the trip or the profession of the traveler.

Other barriers which exist include restrictions on doing business abroad. U.S. tour operators in some countries have found it difficult to establish operations, hire the employees they need, or rent appropriate office space. Repatriation of profits has also been a problem. USTTA is working with USTR and other Executive Branch agencies to eliminate or reduce these barriers where possible. Specifically, we have participated in the GATT services negotiations to help develop rules for services, especially tourism services, which would eliminate or reduce TARs and excessive charges. USTTA has also negotiated side letters to various trade agreements to make it clear that liberalization of trade relations between the United States and our trading partners includes benefits for tourism services.

Question 16. What can be done to elevate travel and tourism as a priority item and emphasize its importance to U.S. export earnings within the Federal Government?

Answer. I believe that as a Nation we need to create the best environment for the economic growth of all our industries. The travel and tourism industry, as many of our other industry, is important to our economy and has the potential for significant growth.

I believe that the importance of the travel and tourism industry and particularly, of increased international visitation to the United States, is recognized at the highest levels of our government. For example, the President in April issued a proclamation proclaiming May 5 through May 11, 1991 as National Tourism Week. In that proclamation, the President emphasized that the travel and tourism industry is America's second largest private employer, that almost \$360 billion was spent annually by all travelers and tourists in the United States, thus accounting for about 6.5 percent of our gross national product, and, perhaps most significantly, that travel and tourism industry was America's largest export earner.

However, this does not mean that USTTA does not have more to do to ensure that these facts are well known throughout all agencies and levels of the Federal Government.

One avenue for getting the message across and getting action taken is through the Tourism Policy Council. As I stated in response to an earlier question, one of my top priorities is to improve that group so that it functions less as an information sharing group and more as a policy making and coordinating group.

PREPARED STATEMENT OF ALEXANDER W. HARRIS, ON BEHALF OF THE UNITED STATES TOUR OPERATORS ASSOCIATION

The United States Tour Operators Association supports the general thrust of S-680 to improve the marketing of the United States as a tourism destination and to improve the formation and coordination of an Open Borders national travel and tourism policy based on free travel flows and free and fair trade in travel services.

The body of this testimony touches on the central importance of computer reservations systems for marketing the U.S. as a destination and the need in S-680 to specifically authorize the national tourist office to organize a national electronic marketing strategy on a par with those now coming out of Europe.

The United States is losing the information technology race in yet another vital American industry because of political reluctance to adapt government institutions to integrate computerized telecommunications networks on a national scale for the

entire travel and tourism industry. Congress in the past has viewed policy for computer reservations systems (CRS) from the limited perspective of fostering competition among airlines. It is noteworthy that an administration that is generally unfriendly to regulation has found it necessary to strengthen CRS rules to break the extraordinary grip on the market for airlines services that four airline-owned CRS companies have acquired.

Airline-owned computer reservations systems have evolved from their 1) original role as the internal information platforms of individual airlines, to 2) an intermediate role as information infrastructure for the entire airline industry, to 3) their current role as infrastructure for the travel and tourism industry. However, the CRS regulations proposed by the Department of Transportation have been written as if evolution stopped at stage two. They ignore the central marketing reality of the travel and tourism industry that the airline-owned CRS used by 95 percent of U.S. travel agents are not only employed to book and distribute airline tickets; they are used for compiling, ordering and distributing complete travel itineraries which are comprised of land as well as aviation services. Transportation officials say that airline CRS control over the marketing of hotel, car rental, attraction and other non-airline travel and tourism services are not their responsibility. Whose are they?

This committee is clearly the legislative mandate for a national travel and tourism policy that emphasizes the international marketing of the U.S. destination to international travelers. Airline and other travel industry CRS are already centrally important for the international competitiveness of tour operators, other travel companies, and the U.S. as a tourism destination.

In other words, policy for CRS that was once clearly the province of aviation policy makers is now clearly the province of travel and tourism policy makers like the Chairman of the Senate Foreign Commerce and Tourism Committee and the Under Secretary of Commerce for Travel and Tourism. CRS are undeniably the principal engine of productivity and international competitiveness for the entire travel and tourism industry, and U.S. airline CRS are so clearly biased against rural areas, land services, and small companies, that it has become imperative for your committee to become actively involved.

European legislatures for a decade have understood and acted to harness information technology for their destinations and not only for their airline companies. The European Community has passed a CRS code that is friendlier to land services than ours. America's principal travel and tourism competitors already have supported the active involvement of national tourist offices in CRS policy making. Each major European country originating travel to the USA is creating an electronic supermarket for all the services of its land service companies as well as its airlines to better compete with the USA. Europe is creating a better electronic itinerary assembly line than we have in America. It is already easier to shop for a trip to the Netherlands than to West Virginia in American CRS.

The United States Tour Operators Association requests that Congress acknowledge this sea change in the technological base for improving the productivity not only of airlines but of all travel and tourism companies and of entire destinations. We suggest you initiate the following steps:

- 1) A GAO study of how airline CRS impact on travel and tourism industry domestic and international markets.
- 2) Committee hearings on how airline and land services CRS interact and impact on land services.
- 3) Committee hearings on the impact of Europe's national tourist office territorial land service CRS on the U.S. destination and on U.S. travel companies operating abroad.
- 4) Authorization in S-680 for the United States Travel and Tourism Administration to develop an electronic marketing strategy for the United States destination.

LETTER FROM STANLEY W. HONG, PRESIDENT, HAWAII VISITORS BUREAU, TO
SENATOR ROCKEFELLER

JULY 10, 1991.

The Honorable JOHN D. ROCKEFELLER IV
U.S. Senate,
Washington, DC 20510-4802

DEAR SENATOR ROCKEFELLER: Thank you for the opportunity to provide written testimony to you and the Senate Subcommittee on Foreign Commerce and Tourism regarding airport passenger facilitation.

As the President of the Hawaii Visitors Bureau, I serve as a member of Governor John Waihee's Airport Facilitation Committee, the United States Travel and Tour-

ism (USTTA) Advisory Board, the Travel and Tourism and Industry Advisory Council (TTIAC) of the U.S. Senate Commerce Committee and serve as chairman of its subcommittee on visitor facilitation.

The Hawaii Visitors Bureau is the State of Hawaii's marketing agency for the promotion of tourism, and in 1990 our state welcomed nearly 7 million individuals from around the world. Of that number, approximately 35 percent were international guests. Tourism is the State of Hawaii's number one industry, bringing into the state's economy billions of dollars and accounting for thousands of jobs.

Because of the growing number of international visitors arriving at the Honolulu International Airport and the importance of tourism to our state, the Hawaii Visitors Bureau is acutely aware and vitally concerned about the many problems facing those returning to or entering the U.S. through Hawaii. As you can imagine, we have received numerous complaints, suggestions, and requests from individuals seeking our assistance in resolving the difficulties at our port of entry.

Therefore we propose the following:

(A) The reinstitution and expansion of Citizen By-pass which would enable our current inspectors to concentrate on welcoming and processing the international visitor;

(B) While the Immigration Service's newly introduced Accelerated Citizen Examination program may help decrease processing times, we believe that the Citizen By-Pass program should be reinstituted as a more efficient process. When this program was in effect, returning citizens and their families were distinguished from the general body of international travelers, thereby expediting their processing and freeing inspectors to focus on non-U.S. citizen international arrivals;

(C) The VISA Waiver program should be made permanent, and the VISA Waiver forms streamlined;

(D) A pre-clearance program in Japan. Hawaii welcomed 1.4M Japanese visitors last year, and a pre-clearance program would greatly reduce the congestion for these visitors at Honolulu International Airport;

(E) The Advance Passenger Information System should be expanded which would advance the use of the automated data processing and reduce processing time for international visitors;

(F) The Congressional mandate that arriving international passengers be processed in 45 minutes can only be met if automation services increase and if changes in the immigration inspection procedures are made a needed. For example, the INS should be more flexible in the 100 percent screening requirement. Those tourists identified as "low risk" could be passed through based on an examination of only the head of household for a family traveling together or on a random basis;

(G) Most important, all INS and Customs Inspectors should be briefed and trained to extend a warm welcome to all U.S. citizens and international visitors, and it is vital that they be multi-lingual. It is vital that the inspectors have a positive attitude toward their responsibilities and the people they process.

Hawaii is the Aloha state. The people of our great state are proud of the "Aloha spirit" which exemplifies a warm welcome, appreciation for others, and congenial hospitality. Hawaii is known for this spirit. However, when visitors and returning residents are faced with processing periods as long as 2 hours, they feel anything but welcome. It is distressing for us to hear from American citizens and visitors that they would rather bypass Hawaii and enter the U.S. through another port of entry. The damage to our state's number one industry has been significant. We urgently propose that a more flexible and more enlightened Federal passenger facilitation policy and procedure be put in place as soon as possible.

One is drawn to the conclusion that a coordinating effort or authority must be established by the Executive Branch to bring the various federal departments together in a common effort to address this very frustrating situation which has confronted us for so long. These departments are:

Justice—(Immigration/INS)

Commerce—(U.S. Travel and Tourism Administration/USTTA)

Treasury—(U.S. Customs)

State—(VISA Program)

Transportation—(Airport facilities and services)

If the Hawaii Visitors Bureau can provide you with additional information or assistance in your efforts, please do not hesitate to contact us. Again, thank you for your consideration and attention to these issues.

Mahalo and aloha,

STANLEY W. HONG,
President.

PREPARED STATEMENT OF GOVERNOR JOHN WAIHEE, STATE OF HAWAII

Mr. Chairman, Members of the Senate Subcommittee on Foreign Commerce Tourism: On behalf of the State of Hawaii and its more than one million residents, I wish to express my concerns and views about our nation's tourism policy. I appreciate the opportunity to present this written testimony to the Subcommittee request that it be included in the record.

As the Governor of the only island state in the United States, I am acutely aware of the critical importance of the aviation industry in supporting our way of life. No other state in the nation relies as heavily as Hawaii on the air transportation system. In order to conduct business and commerce, Hawaii depends upon its air service for the transportation of people and goods. Quality air service is essential to the economy and development of the state.

Efficient, economical air service is the single most important factor in the development of tourism as a major world wide industry. Tourism is recognized and acknowledged as a major contributor to the national economy.

In Hawaii, tourism represents the largest segment of our economy. It is the single largest industry and the single largest employer in the state.

Recognition of the value of international air service has resulted in strong competition for these routes among air carriers and cities world wide. We need only consider the recent negotiations involving American Airlines, United Airlines, and access to London's Heathrow Airport. In order to maintain the United States as the world's predominant visitor destination, we must remain competitive in the air service market. In the Pacific region, Australia, Thailand, Malaysia, and Indonesia are mounting credible challenges to the United States as visitor destinations. To retain our position as a favored destination, every effort must be expended to ensure we provide the full spectrum of services the traveling public demands. This service starts upon arrival.

For the United States to retain its position as a favored destination, every effort must be made to ensure that the travelling public demands and deserves is provided. This service must start upon arrival at the visitor's first U.S. destination. First impressions are lasting impressions.

Inviting more visitors requires that we welcome them properly. Waiting to be admitted to the Immigration Hall for more than two and a half hours, then standing in the Immigration inspection line for one and a half hours, is not the way America should welcome her visitors. It certainly does not reflect Hawaii's Aloha spirit.

The issue becomes more critical when we note that other countries in Europe and Asia admit visitors without delay. The United States must do better.

Hawaii has made a \$1.1 billion commitment to expand and improve our travel facilities. Honolulu's new international terminal will make Hawaii the premier gateway in the Pacific. That is the strength of our belief in the visitor industry and the size of our commitment to be a leader among international airports.

Increasing international service includes the commitment to provide adequate federal inspection services for international visitors. Bilateral negotiations that result in increased number of foreign visitors are unavoidably linked to the federal inspection services.

Ensuring that the federal agencies are adequately funded is the first step toward fulfilling our commitment to increased international tourism. On June 11, 1991, the House passed the State, Justice, Commerce, Judiciary and Related Agencies FY 1992 Appropriations Act.

The Act not only sets appropriations for the federal agencies, it also makes recommendations which address the concerns of the Committee. Hawaii supports these recommendations aimed at improving the federal inspections process.

One of the steps taken by Congress in 1990, a Congressional mandate to have visitors clear Immigration in 45 minutes, is an admirable first step. We now support a new 45-minute standard which includes all federal processing, not just Immigration; and we urge Congress to provide the tools and implement the procedures to meet this goal. We also support recommendations which require Immigration to provide quarterly reports on its progress toward meeting the 45-minute standard.

The entry inspection system must be revamped. The cost of doing business under the present structure is dangerously close to being out of control. The Immigration Service has identified a current need for 725 additional positions at our nation's airports, yet funding for only 439 is available in FY 1991. The Immigration Service is authorized 1,912 positions, but even that number is insufficient and does not reflect the anticipated growth in international visitors. We will reach a point where we can no longer afford additional staff or the massive facilities that they will require.

We must look closely at the requirements and procedures levied on our inspection agencies. In particular, we must review the regulations governing the operation of the Immigration Service.

We ask Congress to seriously review the need to examine 100 percent of our arriving visitors. The U.S. Customs Service has successfully implemented selective inspection. We suggest the Immigration Service could do the same. The approach to revising the inspection procedures should be multi-faceted, involving both technological advances and practical procedural changes.

Immigration's new Accelerated Citizen Examination (ACE) program is a good example of how inspection procedures can be changed to expedite passenger processing. We wholeheartedly support the ACE program as a step toward relieving the congestion in Immigration and look forward to its implementation at Honolulu International Airport. However, we recommend that the ACE program be implemented as standard procedure, rather than on an "as required" basis.

The Advance passenger Information System provides an opportunity to reduce 100 percent screening upon arrival in the United States. Use of this system must be expanded.

In addition, there are low risk passenger categories that should not require percent screening. Among these are families traveling together, where only the of the household should be screened.

Citizen-By-Pass provides some relief in the inspectors workload, allowing more effort to be placed on foreign arrivals. We support resumption of the Citizen-By-Pass program during high volume periods, when the 45-minute standard is clearly being met.

Initiatives such as pre-inspection where travel documents are inspected prior to departure rather than upon arrival at the port of entry, have proven to be successful in reducing congestion at U.S. airports. We support pre-inspection as an effective means to relieve passenger congestion, and recommend active cooperation by foreign governments and the Justice and State Departments to secure approval to expand the use of pre-inspection.

We must also look internally. We recommend a task force made up of members from the concerned federal agencies, such as Transportation, State, Justice, Treasury, Agriculture and Public Health, be formed with the specific mission of developing revised procedures for our ports of entry.

I have reported to you the commitment we have made at the state level to remain competitive in the international visitor market. We must now ask the federal government to support and assist us in making these facilities serve the public effectively and efficiently.

The problems of entry into the United States are critical and well known. Innovative action must be initiated now to resolve these issues or our visitors will choose new destinations. The United States cannot afford that choice.

Thank you again. Mr. Chairman, for the opportunity to express our concerns and views on behalf of the State of Hawaii.

PREPARED STATEMENT OF SANDRA GUESES, TRAVEL DIRECTOR, MONTANA TOURISM DIVISION, MONTANA DEPARTMENT OF COMMERCE

I am pleased to submit this testimony and thank you for allowing Montana the opportunity to express its views on this very important legislation. The changing of the world's economies, demographics, and technologies have caused a shift in the strengths of agriculturally-based states such as Montana. A Midwest Research Institute study states, "Rural areas create jobs at only 2/5 of the rate of metropolitan areas. The poverty rate is 50 percent higher in rural than in metropolitan areas. As a whole, rural America is suffering from serious economic decline." Montana, as well as many other rural states, have addressed this economic situation and have long realized that tourism offers a real hope for the future. Montana is fortunate to possess a wealth of tourism potential, but realizes the enormous task of marketing that potential. An increased awareness and a renewed focus on the importance of travel and tourism to the overall economy of the United States is needed. The proposed Tourism Act of 1991 is a positive indication and a much needed vehicle to promote the importance of travel and tourism.

In this testimony I wish to specifically address seven key points.

1. *Assistance and Cooperation.* As many rural areas have struggled to solve their economic woes, they have looked to government for help. I do not believe that government should be the sole provider of help. Rather, I believe in partnerships and in mutual financial participation, and hope to emphasize in my testimony the need for and the benefits of cooperation between the federal, state, and local entities.

Federal and state governments can and must combine marketing efforts as they provide rural communities with leadership both on a financial as well as an educational level. These skills are often not available on the local level and smaller, diversified groups cannot engage in effective international marketing alone. With a comprehensive and coordinated effort, increased international tour and travel revenues will be realized.

We often receive calls from communities or individuals who had previously relied on agriculture as their base for economic stability and are now realizing the potential that tourism holds. As an example, we can provide technical assistance for the rancher who desires to convert her/his ranch into a "Bed & Breakfast" facility, but unless that technical assistance is combined with an aggressive and well-coordinated promotional effort, their new facility does not stand much of a chance. The individual entrepreneur, local community or even state promotional programs will all be better served if we combine efforts. The United States Travel and Tourism Administration is a key element in this cooperative concept.

2. *Air Transportation.* Rural areas suffer from a lack of adequate air transportation, which in turn limits their visitation to rubber-tire traffic. The trend in domestic travel is toward shorter vacations, as people choose to alter the longstanding once-a-year, two-week trip tradition. Naturally the shorter trips limit the designations available for the automobile trips taken by residents of the larger population centers.

While the short vacation trend may be a boom for some, it potentially has the opposite affect in rural areas such as Montana. With less time allocated for travel, air service becomes a critical factor.

Indeed, air transportation should continue to be addressed at the federal level. I do not, however, expect congressional directive alone to solve this concern. Competition and demand will eventually determine the air service. Tourism development and promotion, both domestically and internationally, will greatly impact that demand for air service. We in Montana see improved air service and increased tour and travel revenues as being very interdependent.

3. *Funding for Tourism Development.* Funding for tourism development does not receive the same priority as industrial development at all levels of government. Tourism is a very vital component of the United States economy, and it would therefore seem logical to treat travel and tourism as a real economic factor with its real economic impact taken into consideration when planning and then implementing economic policy and strategy. The total impact of tourism-related business is tremendous. The guidelines for funding tourism development should be redefined to give the tourism industry a better, more comprehensive evaluation. The Tourism Policy and Export Promotion Act of 1991 will achieve this goal.

4. *National Parks, Forests, and Monuments.* Our National Parks, National Forests, and National Monuments are our greatest assets. They are the "hooks" that bring visitors to and through our rural regions. These parks, forests, and monuments must be recognized and promoted as vital to the economic stability of these areas.

5. *International Marketing.* There is little doubt that states will continue to compete among themselves for the American traveler, and that is healthy. By creating interest in our country's attractions, and thus increasing domestic travel, we will continue to increase our travel export deficit.

However, economic survival can no longer be based on one state competing with the state next door. On a national level, that is literally taking one dollar from the right pocket and putting it in the left pocket. New markets must be cultivated. We must reach outside of the boundaries of our United States and bring new dollars into the American economy.

Montana, as well as many other rural states, have long realized the long-range benefits of creating new international markets. With very limited budgets, new programs which include tourism trade missions have brought revenues from markets such as Canada, Western Europe, Taiwan, Japan, and the United Kingdom. Some progress has been made, but much is yet to do.

The states look to USTTA as a source of information related to those key international markets. It would be foolish to have each state undertake its own in-depth research of the international markets, since the end result would be a great duplication of efforts, lowered quality of research and less money spent on promotion. When the states are less effective, the United States suffers.

The research generated by USTTA provides the state and the private sector with pertinent and well targeted studies, which take the guesswork out of our efforts and help us to determine which markets we should address and in what way. Unfortunately, those studies are often not timely, due to the lack of research funds.

The short-term return of marketing dollars might indicate that domestic rather than international markets should be the top priority. However, we must look to the long-term investment. The commitment to a coordinated international marketing effort translates into a more diversified tourism industry, while at the same time works to lessen the United States' foreign trade deficit. International marketing is a must. I truly think the United States Travel and Tourism Administration has achieved great results under very limited conditions, and Montana is grateful for this effort. Much more can and must be done in this international arena, and it will require additional funding.

6. *The Far-Reaching Economic Impact of Tourism.* The impact of a healthy and growing travel and tourism industry within the United States is not a quick study. In fact, to fully understand the far-reaching impact of this vital industry is one of the main objectives of The Tourism Policy and Export Promotion Act of 1991. The economic impact of travel and tourism goes far beyond the revenues generated from the sale of hotel accommodations, and as more data becomes known, I am positive that support for this industry will become more widespread. We must send the message that the economic impact of tourism does not stop at the lodging facilities, but rather reaches far into our communities and impacts the overall strength of our country's economy.

Preliminary results of this study reveal that hotels and motels receive only 16 percent of the nonresident travel expenditures, while retailers receive 25 percent of the traveler's expenditures. Gasoline accounts for some 16 percent while groceries, recreational equipment, and outfitting services receive another 12 percent of our visitors' expenditures. My point is that travel and tourism generate revenues in ways that impact many facets of local, state, and federal economies. Tax revenues are generated as gasoline is sold and property is assessed. Clearly, tourism is a real, measurable, productive industry, but one that is often taken for granted and misunderstood.

The United States Senate is leading the way with the introduction of this progressive legislation, and we in the rural states will support this committee in any way we can to ensure passage of this national policy on travel and tourism. I thank you for this opportunity to express my views and opinions to this committee.

LETTER FROM SUSAN B. JOLLIE, ATTORNEY, GALLAND, KHARASCH, MORSE & GARFINKLE, P.C., TO SENATOR ROCKEFELLER

JULY 29, 1991.

The Honorable JOHN D. ROCKEFELLER IV
U.S. Senate,
Washington, DC 20510-6125

DEAR SENATOR ROCKEFELLER: The Subcommittee on Tourism recently held hearings on legislative proposals to expand the operations of the United States Travel and Tourism Administration (USTTA). Air Jamaica, Cathay Pacific Airways, and Singapore Airlines ask the Subcommittee to consider the views of foreign air carriers which will be forced, under pending USTTA regulations, to pay For U.S. tourism promotion.

The Subcommittee heard from witnesses extolling the benefits of increased tourism, which promotes economic growth in the United States and helps ameliorate the U.S. trade deficit. These are laudable objectives, and ones which the Subcommittee would understandably want to pursue. However, the costs of promoting tourism should be borne by the beneficiaries of USTTA activities, which are primarily U.S. businesses and, more generally, the citizens of the United States.

Current USTTA funding mechanisms jeopardize expansion of tourism. Congress adopted a so-called "user fee" to cover the operating costs of the USTTA as part of the Omnibus Budget Reconciliation Act of 1990. This user fee is inequitable because airlines are assessed a fee for transporting foreign nationals that will cover the projected USTTA budget. Legislation that would enlarge USTTA's mission would thus lead to increased costs to airlines, in general, and to foreign carriers, in particular, because foreign carriers tend to transport more foreign nationals.

A number of foreign airlines have protested that the USTTA user fee violates undertakings contained in bilateral aviation agreements between the United States and foreign countries. Foreign airlines should not bear a disproportionate share of the costs of a U.S. Government agency whose primary mission is to promote U.S. interests, including those of U.S. airlines. Unless this issue is quickly resolved in favor of foreign carriers, it may become necessary to oppose any expansion of the USTTA—or, indeed, the continued existence of the agency.

If the Subcommittee is truly interested in promoting the United States as a tourism destination, serious attention should be given to the proliferation of aviation-related "user fees." If the costs of air travel continue to increase, the tourism appeal of the United States will diminish in comparison to other destinations. Tourism promotion by a U.S. Government agency will not be able to create market demand for an overpriced product.

Enclosed is a copy of comments that were filed in the USTTA rulemaking proceeding. These comments provide a more thorough explanation of the objectionable features of the USTTA user fee. We ask that this letter and the attached comments be made a part of the hearing record.

Respectfully submitted,

SUSAN B. JOLLIE,
*Attorney for Air Jamaica Limited, Cathay Pacific Airways
Limited, and Singapore Airlines.*

BEFORE THE DEPARTMENT OF COMMERCE, UNITED STATES TRAVEL AND TOURISM
ADMINISTRATION

IN THE MATTER OF NOTICE OF PROPOSED RULEMAKING ON THE USTTA FACILITATION
FEE; DOCKET NO. 91236-1036

COMMENTS OF AIR CANADA, AIR JAMAICA LIMITED, BELAIR AG, CATHAY PACIFIC
AIRWAYS LIMITED, PHILIPPINE AIRLINES, AND SINGAPORE AIRLINES LIMITED

These comments are filed on behalf of Air Canada, Air Jamaica Limited, Balair AG, Cathay Pacific Airways Limited, Philippine Airlines and Singapore Airlines Limited ("Joint Commentors") in response to the Notice of Proposed Rulemaking ("NPRM") issued by the United States Travel and Tourism Administration ("USTTA") proposing regulations to implement an amendment adding sections 306 and 307 to the International Travel Act of 1961. 56 Fed. Reg. 1116 (March 15, 1991).

The NPRM proposes procedures for calculation of the "per alien multiplier" used to calculate the level of fees which the USTTA will collect; assessment of the quarterly fee; sanctions for nonpayment; and application for an exemption to the fee. For foreign carriers, the fee represents the latest in a string of "user fees" which the United States Government has required foreign carriers to pay or to collect from their passengers to pay for services of dubious value to foreign carriers. The Joint Commentors are concerned that the USTTA facilitation fee could become another vehicle by which foreign carriers could be forced to shoulder more than their fair share of financing for U.S. programs which confer little, if any, economic or competitive benefit on them.

The Joint Commentors are particularly concerned about three aspects of the proposed rule and the USTTA funding scheme.¹ First, the USTTA will calculate the per alien multiplier, and each carrier's quarterly fee, based on estimates of the number of aliens expected to enter the United States. The calculation of these estimates appears to be highly arbitrary because the NPRM does not articulate the factors to be considered and methods to be employed to arrive at these estimates. Fairness dictates that the USTTA clarify the bases for these estimates and provide a meaningful opportunity for administrative review.

Second, the Joint Commentors are alarmed at the inclusion in the USTTA budget for 1991 of \$5 million for reconstruction projects to repair damage done by Hurricane Hugo. The inclusion of this project appears to set the precedent that domestic public works projects with little or no connection to international tourism can be included in the USTTA budget, and thereby funded, not by general tax revenue, but by air carriers, the majority of which are foreign. To alleviate this concern, the Joint Commentors ask that USTTA include in the final rule assurances that the only domestic construction projects to be included in the USTTA budget are those with a demonstrable and substantial link to international air travel and tourism.

Third, under the proposed rule, carriers may not pass the fee explicitly through to passengers. The proposed rule assumes that carriers will be able to pass the fee to passengers by increasing fares, while ignoring the fact that carriers are severely constrained in their ability to raise standard fares. This provision of the NPRM

¹The Joint Commentors also have grave reservations about the legality of imposing the USTTA on foreign carriers. Imposition of the fee violates the bilateral aviation agreements to which the Joint Commentors are a party with the United States, as well as general principles of comity and reciprocity. The Joint Commentors will address these arguments in individual exemption applications and via diplomatic channels.

could force the carriers to absorb the cost of the fee completely. The Joint Commentors ask that the USTTA allow carriers to pass the fee on to passengers explicitly.

A. FAIRNESS REQUIRES THAT THE USTTA SPECIFY HOW IT WILL FORMULATE ITS ESTIMATES

A central element in the USTTA's calculation of each carrier's fee is the USTTA's estimate of how many aliens will arrive in the United States because this estimate, along with the level of the USTTA budget for the year, determines the amount of fee assessed per alien transported to the United States. See §§ 1201.2 and 1201.3(b). The NPRM leaves the question of how the USTTA will arrive at this estimate unclear, leaving the USTTA virtually unfettered discretion to assess any level of estimated fee it chooses.

If there are INS statistics for the previous year, the USTTA will use those numbers as a point of departure. § 1201.3(c). If, however, there is insufficient INS data to give an accurate count of aliens for the previous year, the USTTA may also use estimated figures from the Attorney General. 56 Fed. Reg. at 1117.² The NPRM offers no information whatsoever into what data goes into these estimates, how or when the data is collected, or what assumptions go into formulating this estimate.

The NPRM tracks the language of the statute by providing that the USTTA may also consider "such other available information as the Under Secretary [for Travel and Tourism] deems reliable." § 1201.3(c). The USTTA interprets this language to mean that the USTTA may "take into account any current changes in world circumstances which affect the travel and tourism industry" when estimating the number of aliens expected to enter the United States in a given year. 56 Fed. Reg. at 1117. The NPRM does not attempt, however, to narrow or define this statement. Since virtually change in world circumstances can affect travel and tourism from some part of the world in some way, the NPRM appears to give the USTTA unbounded authority to raise carrier's estimated bills on the basis of unspecified, subjective factors.

Fairness requires that the USTTA articulate the source of the data and the methodologies which it will employ to arrive at these estimates and enumerate what sort of changes in world circumstances, and what level of effect on world travel and tourism, will warrant adjustment of the USTTA's estimate of foreign visitors. Each carrier's quarterly bill based on these estimates, and these assessments themselves are not subject to judicial review. As presently drafted, the proposed rule allows the USTTA to impose substantial fees on carriers on the basis of data, assumptions, and methodologies which the USTTA does not have to reveal. The Joint Commentors' proposed modifications will make the final rule more fair, and help foster better aviation relations, because the carriers have the right to know how the fees against them will be assessed, to know they are fairly assessed, and to have a means of communicating their concerns to USTTA if they believe a mistake has been committed.

B. THE USTTA SHOULD ASSURE FOREIGN CARRIERS THAT THE FACILITATION FEE WILL NOT BE USED TO FINANCE DOMESTIC PUBLIC WORKS PROJECTS

In this time of an enormous budget deficit and the resulting search for alternative, "painless" ways of raising revenue for domestic programs, Congress has apparently discovered that new revenue can be collected, and federal budget savings achieved, by assessing new fees on air carriers (including foreign air carriers) or forcing carriers to collect these fees from their passengers. As part of the Omnibus Budget Reconciliation Act, Congress has proposed that carriers pay a fee to fund the services of the Animal and Plant Inspection Service (APHIS) and that carriers collect passenger facility charges to fund airport construction and noise reduction projects at airports across the United States (most of which foreign carriers are forbidden by law from serving). The Joint Commentors fear that the USTTA facilitation fee may evolve into yet another vehicle for generating revenue for domestic projects without increasing the federal deficit by compelling foreign air carriers to contribute, regardless of whether they will derive benefit from the project commensurate with the costs imposed on them.

²The question of how the USTTA will estimate aliens entering from Canada is even more problematic. The INS does not maintain detailed statistics on transborder passengers, and neither the INS nor carriers are required to record a passenger's nationality when the passenger books or travels. Therefore, it appears that under the vague provisions of the NPRM, transborder carriers could be required to pay the fee for an arbitrarily estimated number of passengers, or develop expensive new procedures to collect nationality data from passengers. Air Canada will expand on this argument in its individual exemption application.

These fears are raised by the inclusion in the USTTA 1991 budget of \$5 million to repair businesses damaged in South Carolina by a hurricane. This project appears to indicate that future budgets could include other projects whose benefit to international air transportation and tourism is tenuous and speculative at best. Such a result would subvert any valid purpose of the facilitation fee and represent an abuse of the United States' authority over foreign air carriers operating to the United States.³ For this reason, the Joint Commentors request that the USTTA assure carriers that all projects financed by the USTTA will have a direct, demonstrable, and substantial relationship to enhanced international travel and tourism and that all amounts passed through to carriers will be reasonable.

C. THE NPRM'S REFUSAL TO ALLOW CARRIERS TO PASS THE FEE EXPLICITLY THROUGH TO PASSENGERS MAY IMPOSE AN ONEROUS BURDEN ON SOME CARRIERS

The Joint Commentors strongly object to the restriction in the NPRM on a carrier's ability to pass the fee explicitly through to passengers. This proposal assumes that carriers can simply add the costs of the fee to the standard fare charged to passengers. In reality, it is far from certain that carriers will be able to pass the fee on to passengers through an increase in the standard fare. Carriers' ability to raise their fares are constrained in some cases by statute and DOT regulations, and in all cases by competitive forces.

The USTTA's proposed rule reflects no awareness of these constraints. The Joint Commentors believe this is a serious flaw in the NPRM which may impose a heavy burden on many carriers as they are forced to absorb the cost of the USTTA fee.⁴ The Joint Commentors therefore urge the USTTA to allow carriers to pass the fee explicitly through to passengers.

WHEREFORE, the Joint Commentors urge that the USTTA articulate the data, assumptions, methodologies, and procedures it will use to estimate the number of aliens expected to travel to the United States, and that the USTTA issue assurances that the USTTA budget will contain only projects which directly and demonstrably enhance international air travel and international tourism and allow carriers to pass the fee explicitly through to passengers.

LETTER FROM PHILIP G. DAVIDOFF, PRESIDENT, AMERICAN SOCIETY OF TRAVEL AGENTS, TO SENATOR ROCKEFELLER

JULY 16, 1991.

The Honorable JAY ROCKEFELLER,
U.S. Senate'
Washington, DC 20510

DEAR CHAIRMAN ROCKEFELLER AND COMMITTEE MEMBERS, as President of the American Society of Travel Agents (ASTA), I am pleased to inform you of our support for your legislation S. 680, "Tourism Policy and Export Promotion Act of 1991."

The provisions in your Bill are very similar to the ones in S. 1791, which was a Bill to amend the International Travel Act of 1961 to assist in the growth of international travel and tourism into the United States and for other purposes. In my review of S. 680 and S. 1791, I find the provisions for the most part similar hence I am attaching a copy of the Testimony that our President at the time, Voit Gilmore, offered.

The essential difference between these Bills is the increased funding requested in S. 680 for USTTA from \$17,000,000.00 for the fiscal year ending September 30, 1992 in S. 1791, to \$18,000,000.00 in S. 680, the same fiscal year ending September 30, 1991. S. 680 then went on to request \$21,000,000.00 for the fiscal year ending September 30, 1992, and not to exceed \$24,000,000.00 for fiscal year ending September 30, 1993. ASTA strongly supports this increase because in our view, we feel that permanent funding for USTTA is necessary if it is going to become a more effective organization, especially in the area of promoting programs to bring more foreign visitors to the United States. Without permanent funding, it becomes almost impossible to create and participate in joint advertising and promotional programs with

³The Joint Commentors note that use of the facilitation fee for purely domestic, non-aviation purposes violates most aviation bilateral agreements and general principles of comity and reciprocity. These arguments will be addressed in more depth in individual applications for exemption from the fee.

⁴The addition of the USTTA fee to the other fees which foreign carriers must remit to the U.S. Government may be also a particularly heavy economic burden to foreign carriers, such as Air Jamaica, whose countries are suffering from a shortage of foreign currency. Air Jamaica will further address this point in its exemption application and through diplomatic channels.

foreign governments and tour operators, which is key in bringing foreign travelers to America.

S. 680 additionally provides for the Secretary of Commerce to authorize for each of fiscal years 1991, 1992, 1993, funds not to exceed \$500,000.00, to match partially or wholly the amount or value of contributions (whether in currency, services, or property,) made to the Rural Tourism Development Foundation by private persons, Federal, state and local government agencies and provide administrative services for the Rural Tourism Development Foundation.

ASTA feels this grant is a necessary means of creating a viable and effective Foundation. ASTA believes that many rural areas throughout America have the potential or are in fact beautiful and interesting tourism destinations. The state, city, or region, in most cases, simply does not have the resources to develop their tourism potential. They need the expertise of a Rural Tourism Development Foundation. The Foundation could also serve as a catalyst to get the private sector more involved in developing and promoting the tourism potential of the rural areas. The Foundation should also play a vital role in preserving and conserving natural, scenic and historic areas throughout the rural areas of America.

ASTA stands ready to assist you and your Committee in any way to bring about the passage of S. 680.

Respectfully submitted,

PHILIP G. DAVIDOFF,
CTC President.

PREPARED STATEMENT OF VOIT GILMORE, PRESIDENT, AMERICAN SOCIETY OF TRAVEL AGENTS

My name is Voit Gilmore. I am President of the American Society of Travel Agents (ASTA). In addition, I am the President of Four Seasons Travel Service, Inc., located in Pinehurst, North Carolina. I am also the former, and first, head of the Commerce Department agency we know today as the United States Travel and Tourism Administration (USTTA).

ASTA is the world's largest trade association of professional travel agents, with 13,000 travel agency members throughout the United States, and a total worldwide membership of agents and industry suppliers exceeding 23,000.

ASTA's members are primarily small-business owners and their employees. Among ASTA's purposes are the promotion and advancement of the interests of travel agents and the safeguarding of the traveling public against fraud, misrepresentation and other unethical practices.

It is an honor and privilege to appear before you today to review proposed revisions to the National Tourism Policy Act, and to share with you the perspective of ASTA members concerning the issues facing the travel industry which we believe should be addressed by Congress.

As I prepared my testimony for today's hearing, I could not help reflecting on my days as Director of the United States Travel Service (USTS) as well as the efforts which were undertaken almost ten years ago by this Committee and this industry to address what were considered the challenges facing tourism at the end of the 1970's.

Mr. Chairman, little has changed with USTS, now USTTA, in those years except—

- the name of the agency representing the travel industry in the Federal Government,

- the title of the position heading that agency,

- and the amount of revenue paid by the industry to support the Federal Government.

Otherwise, virtually the same issues and the same concerns we addressed back then are with us today.

When it comes to the Federal Government, the travel industry continues to be the Rodney Dangerfield of America's industrial sectors. We just don't get no respect.

To illustrate my point, let me compare for a moment the similarities between the provisions of the National Tourism Policy Act of 1981 and the provisions of the proposed Tourism Export Promotion Act of 1989:

1. The 1981 legislation recognized the importance of travel and tourism to the nation's social and economic well-being and encouraged facilitation of travel to and within the United States.

The proposed 1989 legislation contains similar findings which demonstrate the size of the industry, its importance to the gross national product, employment, and the U.S. international trade position. The proposed legislation also sets as a goal

the elimination of the current account deficit in tourism trade and urges the establishment of a tourism trade surplus.

Actually, this latter objective has already been achieved. Through the first half of 1989, USTTA reported a \$118 million trade surplus, virtually the only surplus in the services sector of the current account.

ASTA views this as exceptional news and suggests that this should give Congress and the Administration every reason to bolster and support the trade development efforts of USTTA in order to benefit from the comparative advantage the United States has in trade in tourism.

2. The 1981 Act created an interagency policy council to coordinate the over 100 federal policies impacting tourism, plus an advisory board of industry, labor and consumer interests to advise the agency. Both bodies were required to submit annual reports to the Congress and the President, and the agency was required to submit an annual program plan to Congress.

The proposed Tourism Export Promotion Act once again requires that the agency's advisory board review and approve the agency's annual plan before it is submitted to Congress.

3. The 1981 Act authorized the Agency's Under Secretary to coordinate overseas promotion activities with other Commerce Department agencies, especially the International Trade Administration, and to establish nine additional offices with the assistance of the U.S. and Foreign Commercial Service.

The 1989 bill follows a similar track, requiring USTTA to concentrate its trade development efforts on those countries that have the greatest potential for increasing U.S. tourism export revenue, and requires the assistance of the U.S. and Foreign Commercial Service in the development of export tourism trade, especially from those high yield market countries where USTTA does not have the resources to maintain offices of its own.

4. For cosmetic effect, the '81 Act changed the name of the agency and gave it an Under Secretary.

The proposed bill replaces the term "tourism marketing" with the term "tourism trade development".

5. And finally, Mr. Chairman, the 1981 Act authorized the agency to be funded at \$6.5 million for FY 1982, an amount of similar value to the \$15 million authorized by the proposed legislation for FY 1990.

With few but notable exceptions, the legislation before us today is very much like—as Yogi Berra once said—"deja vu all over again."

Now, some might consider these observations to be critical of the bill before us. Let me assure you, they are not.

If anything, these observations are critical of the lack of beneficial progress made over the past three decades in efforts to gain greater cooperation and support from the Federal Government for the tremendous work the American travel industry is doing to promote American competitiveness in international trade and domestic economic development.

ASTA believes it is both timely and appropriate to be undertaking this review. To its credit, however, there are some subjects addressed in the proposed bill which have never been raised previously before this Committee in the context of USTTA. Among these are:

The more frequent publication of tourism trade statistics;

The inclusion of an inventory of barriers to tourism trade in the annual National Trade Estimates Report;

The creation of a foundation to facilitate further USTTA's private/public promotional partnerships, particularly as they relate to the development of tourism in rural America;

An annual survey of states attorneys general and consumer protection boards to establish a record of companies and individuals that have committed travel fraud; and

A scenic byways economic impact study.

ASTA has some comments about these four provisions as well as a few suggested improvements that might be considered to strengthen the proposed legislation.

International Trade Data: ASTA suggests that increasing the frequency with which the international trade data on tourism is reported—from quarterly to monthly—is an unnecessary expense. What is important is that when the current account balance figures are announced quarterly, greater emphasis is placed on the trade balance for tourism.

With tourism representing America's largest source of export revenue, and now the only surplus in the services sector, it is wrong for the Commerce Department to ignore the industry altogether while, for example, placing so much emphasis on the volume of international investment by the Japanese in the United States.

Barriers to Trade: For several years, USTTA's Office of Policy has worked to address a vast array of barriers which restrict the growth of international trade in tourism. These efforts have included—

- the creation of an inventory of barriers developed in cooperation with the Organization for Economic Cooperation and Development,
- the pursuit of barrier-eliminating initiatives through the World Tourism Organization, and

- the execution of numerous bilateral trade agreements and memorandums of understanding aimed at reducing or eliminating a vast array of obstacles which thwart both the growth of America's international tourism trade and the opportunities of international tourism trade around the world.

Some have criticized USTTA as an agency with no heavy policy responsibilities. Such criticism comes from ignorance. The annual publication of tourism trade barriers including the long list of obstacles which limit the growth of international aviation would enlighten many.

Such a publication would help raise the standing of both the industry and the agency in the eyes of those who measure worthiness by the volume of trade negotiation and policy formulation carried out in behalf of a given industrial sector.

Rural Tourism Foundation: Since the early 1980's, considerable thought has been given to the creation of a foundation to promote the trade development efforts of USTTA.

In an early meeting with representatives of the travel industry, the late Commerce Secretary, Malcolm Baldrige, made such a proposal. Subsequently, former Under Secretary Tuttle and former Acting Under Secretary Peterson each investigated the possibility of establishing such an organization. Congressman Ike Skelton of Missouri even proposed legislation in the 100th Congress to legislate the creation of a foundation.

Unfortunately, certain elements of the travel industry feared that creation of a promotional foundation would somehow compete with their programs.

But perhaps times have changed. Perhaps there is now a greater willingness on the part of everyone in the industry to agree on such an entity.

There are numerous examples of similar organizations supporting the work of other nations' tourism trade development agencies and there are similar organizations working in cooperation with other agencies of the U.S. Government. ASTA supports this concept.

Scenic Highways: ASTA concurs with the proposal to undertake a study on the economic activity associated with scenic and recreational travel on scenic byways. This proposal is an appropriate adjunct to the rural tourism study undertaken by the agency in FY '89, and ensures continued USTTA involvement in the Chairman's Scenic Byways initiative.

Areas to Strengthen: Mr. Chairman, overall, ASTA believes the draft legislation before us today is a very good start. There are however a few areas where we believe some additional strength could be added, and there are some additional issues ASTA would hope could be addressed in this bill.

Tourism Policy Council:—The proposal requires the fuller participation of other Federal agencies in the operation of the interagency Tourism Policy Council. This is an excellent idea as far as it goes, but ASTA believes the proposal should be taken further.

At the present time, the Tourism Policy Council is simply a sounding board. It has no real standing or clout.

ASTA believes that the interagency body should be positioned as an integral element in the Federal interagency review process on matters of trade, transportation, natural resources and reclamation, historic preservation, economic development, diplomatic policy, and industry regulation.

Interagency working groups should be convened appropriately to review and make recommendations on Federal proposals which may affect the ability of America's travel industry to compete domestically and internationally. The recommendations of these working groups should then be submitted to the full Policy Council for review and adoption. In turn, the Policy Council, through the Secretary of Commerce, should forward its recommendations to the President's interagency Economic Policy and International Policy Councils.

Travel and Tourism Advisory Board:—The draft legislation recommendation that more representation be given to states and cities is appropriate. ASTA would also recommend that there should be more representation from small business, especially in light of the fact that 98 percent of the travel industry is comprised of small business and that USTTA's resources are dedicated in large part to assisting those elements—small businesses and lesser-known destinations—reach the international market.

To this recommendation, ASTA also would urge an addition that the board be Presidentially appointed. Given the size of the industry and its economic, social and strategic importance to the nation, ASTA believes there is as much or more justification for making membership on this board subject to Presidential appointment—with the advice and consent of the Senate—as there is for any other existing Presidentially appointed board or commission.

USTTA Funding—Mr. Chairman, for as long as I can remember, the issue of adequate funding for USTTA has been a rallying point for the travel industry. Humorously, I wonder what will hold us together as an industry if we ever get this issue resolved.

Seriously, I must say that the authorization levels included in the draft legislation are totally inadequate. In fact, they are harmful to efforts to bring USTTA funding to a level that makes the United States competitive with other tourism exporting nations.

It would be better to drop the authorization section from this draft than to leave a paper trail upon which Congressional and Administration critics of the agency could justify reduced or no funding for the agency's important programs.

But rather than just leave it at that, ASTA proposes the following idea as a way to help Congress, the Administration and the industry address this perpetual issue.

As the Committee recognizes, one of the biggest factors affecting the competitiveness of the United States as a travel destination is price. One of the biggest factors affecting the price of American travel services is the amount of taxes and user fees which individual enterprises and consumers of industry services pay.

ASTA strongly believes that fees and taxes paid by the industry and its consumers should be dedicated and used for the needs of the industry.

Of the tens of billions of dollars collected for the highway trust fund, and the airport/airways trust fund, along with park entrance fees, room taxes, excise taxes, etc., only a small portion ever makes its way back to build and maintain roads, improve the aviation system, protect public recreation facilities, or support the tourism trade development efforts of the Federal Government.

ASTA members, as primarily small business people, recognize and appreciate the importance of user fees to support activities and programs which may not rank among the constitutional priorities of the government. But ASTA members are not in favor of having their industry and its consumers taxed under the guise of user fees only to be denied the support and assistance promised from those user fee laws.

ASTA strongly believes that USTTA plays a vital role as a catalyst for the travel and tourism industry and we believe Congress should support USTTA at a substantially higher level.

There is no wonder that the American travel industry is unwilling to support user fees to pay for USTTA's programs when there is every reason to believe that monies collected as user fees will never be used to support USTTA's programs.

To explain this skepticism, one need only look at the current charade going on within the Administration over the agency's FY '91 budget and the initiative by this Committee to raise the airline departure tax to fund the deficit.

ASTA supports the concept of user fee funding for USTTA and the broad range of other programs mentioned previously, but only if the monies raised by those fees are dedicated exclusively, and appropriated directly, to the programs for which they are intended.

If Social Security, the savings and loan bailout, Immigration user fee funded programs, and portions of the President's drug war can be operated off-budget or at least categorized so they will not affect Gramm-Rudman-Hollings budget targets, then there is no reason USTTA, FAA, the highway program and other current and future user-fee funded programs can't be too.

Whether it is done as part of this bill, or part of the FAA reorganization proposal under consideration by the Commerce Committee, ASTA urges that off-budget user fee funding, including the possibility of dedicating a part of the international passenger departure fee, be established for USTTA and that funding of at least \$30 million be provided the agency for FY '91.

If fully implemented as drafted with the additional suggestions outlined in this testimony, ASTA believes the proposed Tourism Policy and Export Promotion Act of 1989 can achieve these ends.

Thank you Mr. Chairman.

I would be pleased to answer the Committee's questions.

PREPARED STATEMENT OF JOHN J. CAVANAUGH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SUMMIT LIMITED

It is a great honor to be invited to address this Committee at this crucial time in the history of relations between the United States and the Soviet Union. Yesterday at the commencement of the Summit Meeting in Moscow, President Bush declared the long post war period of hostility between the United States and the Soviet Union to be over and a new period of military peace and economic cooperation to have begun. So, as we sit here today considering the policy choices available to the United States, we must first recognize that we have already crossed a dramatic line from one era to another. This new era offers opportunities for both the United States and the Union of Soviet Socialist Republics which could not even be imagined a few months ago.

On Saturday, I returned from two weeks in the Soviet Union during which time I not only visited with the leaders of the food industry of the Soviet Union¹ the Russian Republic, and the Ukrainian Republic, but the new Minister of Oil and Gas of the U.S.S.R., Lev Tyurilov, as well. I also travel led south to the great agricultural production region of Stavropol and east to the historic cultural capital of the Ukraine in Kiev. Wherever I went there was a new spirit of determination and enthusiasm to build a new society in the Soviet Union and without question the United States of America is the model they wish to follow.

For the past 15 years my firm, Summit Limited, has been doing business in the Soviet Union and for the past five years we have pursued a business strategy based upon a belief in the validity and eventual success of Perestroika. The past five years have not been easy and the success of our business has risen and declined with each new wave in the Perestroika drama. It is clear to all the world that what has been going on in the Soviet Union since Mikhail Gorbachev came to power in March 1985 is a revolution—a revolution in which the Marxist-Leninist-Stalinist order which governed the Soviet Union for the past seventy years is being replaced by a yet unstructured system which seeks to be both democratic and market-oriented. So far, it has been a remarkably peaceful revolution and one key to the future success of the Soviet Union is that this revolution must remain bloodless.

I believe this revolution is going to succeed and in fact has already succeeded. The old order is gone and the new order is here, bawling and stretching in its cradle, eagerly exploring the new world around it.

Summit Limited is engaged exclusively in representing American food companies and American food processing machinery companies in the Soviet Union. Our clients include major American brand name companies and our projects in the Soviet Union run the entire food chain from growing to harvesting to storing, processing and distributing food products. As a result of this focus on the food chain in the Soviet Union, I have spent a good deal of time on the State and collective farms of the Soviet Union and I have gained some insight into the massive obstacles that face the people of that huge country and also some understanding of the great possibilities the Soviet Union holds as well.

I want to share some observations I have of the people of the Soviet Union and make some suggestions as to what policies this country should now be pursuing.

One week ago Friday I met with the Prime Minister of the Russian Republic, Mr. Ivan Silayev, who removed all remaining doubt as to what direction the Russian Republic is heading when he told me that the Russian Republic is prepared to spend its scarce hard currency resources to hire American experience to assist in the establishment of a private farming system in the Russian Republic and they want to begin now.

On Monday, July 22, 1991, I met with the new Minister of Oil and Gas of the U.S.S.R., Mr. Tyurilov, and discussed the possibilities of developing Senator Exon's idea of creating a direct barter of oil for food between the United States and the Soviet Union. He was enthusiastic about the prospect but then proceeded to explain his problem in detail. The problem is Soviet oil production has been declining for the past four years and is currently not producing at sufficient levels to meet domestic needs, let alone expand exports. He explained that there were three elements to this problem. The first and most pressing was a lack of domestic machine building capacity and technology needed to sustain and expand oil production. This problem can only be solved by massive capital investment in machine building and technology. The second problem is domestic pricing which subsidized consumption and denied sufficient investment capital to sustain the Soviet oil industry. Mr. Tyurilov stated that he expected domestic oil prices to triple in the next several months, creating some decrease in domestic demand and providing much needed investment capital.

The third problem with developing the Soviet oil production system to a level that it could in fact barter oil for food with the United States in a truly mutually beneficial interdependence is the shortage of capital investment needed to modernize the production capacity of the Soviet oil industry. He said that to date only \$12 million had been invested through western joint ventures. He concluded by saying he was optimistic that these problems will be solved and that the exchange of food for oil is an idea worth doing and one he wants to discuss in further detail. He suggested an American oil industry policy toward the Soviet Union be developed with the support of the United States Government.

On Monday, July 22, I met with the Deputy Prime Minister of the U.S.S.R. Fyodor Senko and an old friend, Anatoli Belichenko, who is now Deputy Minister of Agriculture and Food of the U.S.S.R. We discussed a wide range of ambitious programs for the development of the food processing industry in the Soviet Union and again the issue became the need of the Soviet Union to acquire food processing machinery and technology and to produce it in the Soviet Union on a massive scale.

On Thursday, July 18, I met with the First Deputy Minister of Agriculture and Food of the U.S.S.R., Yuri Mordvintsev. We discussed specifics of how the U.S. food processing machinery industry and the Soviet industry could begin to work together. Mr. Mordvintsev had met earlier with George Melnykovich, President of the Food Processing Machinery and Supplies Association, and we are now working on a specific program which will lead to expanded sales of U.S. food processing machinery in the Soviet market and expanded production of U.S. food processing machinery and technology in the Soviet Union.

While each of these meetings with leaders of the Russian Republic and the Soviet Union in Moscow led to valuable understanding of the economic needs of the Soviet Union, it was a discussion in Stavropol which led to the greatest insight into the new aspirations of the Soviet citizen. I was talking with the leader of a collective farm in the Stavropol Region when he told me that he had just recently purchased a copy of Lee Iacocca's book for 150 rubles after searching for months. He was bursting with pride as he told me his 16 year old son had already read it twice and it was his dream that his son grow up to be like Lee Iacocca.

These are compelling events now ongoing in the Soviet Union and the United States has sat on the sidelines too long. The end result is too important and the expectations too high for us not to respond. The end result of what occurs in the Soviet Union in the next five years is more important to the United States than even the security of Kuwait and so our effort should be at least as great as it was there.

We need to act now and we must make a major commitment to assist the people of the Soviet Union in building a new democratic and prosperous market-oriented economic system. We should do it because they are a great people who need our know-how and expertise and our capital, but we should do it also because it is also in our self-interest. The world is truly changing into one small market place and we are in global competition every day in every new and emerging market. It is certainly true that our economic competitors in the European Community understand the importance and the implications of the economic and political transformation in the Soviet Union.

The European Community has established a 400 million Ecu Technical Assistance For Economic Reform of the Soviet Union program (attached for inclusion in the Record) and have targeted five sections of the Soviet Economy which will receive technical assistance from European companies. The areas are financial services, energy, transportation and food distribution. Combined with the fact that American companies have been hobbled by a lack of Ex-Im Bank credits and OPIC insurance for the past five years the competitive advantage for European companies in the Soviet Market will continue to widen. For example in 1990 the USSR increased machinery and equipment imports by \$6.5 billion and none of this increase was for U.S. sales.

We have a human interest, a national interest and a commercial interest in participating in the economic revival of the Soviet Union and we need to get about doing the task.

Several months ago Dr. Anthony J.F. O'Reilly, Chairman and CEO of the H.J. Heinz Company, delivered an address to the Institute of International Bankers entitled "The Soviet Union In The Global Economy; The Time is Now" (attached for inclusion in the Record). Dr. O'Reilly provided a blueprint for action and identified the three areas in which we should be making a contribution to the Soviet Union. He said "Let's start with the basics: ideas, capital and trade." Those are of course the basics and I have some specific ideas which should be adopted in the next several months if the United States is to play a constructive role in this dramatic process.

First, full participation in the International Monetary Fund and World Bank membership are essential to fully integrate the Soviet Union into the World economic system.

Second, most favored nation status and the removal of the Byrd and Stevenson Amendment restrictions are fundamental to a normal and healthy economic relationship with the Soviet Union.

Unrestricted Ex-Im Bank credits and OPIC insurance are essential for U.S. companies to be competitive with our European competitors.

Further lifting of COCOM technology transfers restrictions particularly on transactions like the U.S. West fiber optic cable project is in both our national interest as well as our commercial competitive interest.

Agency for International Development (AID) Technical Assistant programs should be extended to the Soviet Union. A program on the scale of the European Community Program of approximately \$500 million for a period of the next three years should be adopted and I believe the same priorities adopted by the EC would also serve U.S. interest with the addition of Telecommunications and the entire food chain from farm to market added to the European priorities of financial institutions, energy and transportation.

We should also extend the U.S. Department of Commerce Consortia of America Business in Eastern Europe Program to the USSR administered by the International Trade Administration (ITA)

Senator Exon's idea of bartering American food products for oil from the Soviet Union should be developed into a specific trade program which would include not simply food but food processing machinery and technologies needed to build the food industry in the Soviet Union.

The United States should develop a comprehensive trade program designed to promote the sale of U.S. machinery and technology and the establishment of U.S. machinery manufacturing facilities in the Soviet Union.

Finally the Congress should take a new and comprehensive look at establishing a new coordinating committee for the Soviet Union such as that proposed by Howard Buffet of Omaha which would direct this entire range of technical assistance and project development programs.

Mr. Chairman you are to be commended for beginning this process. It is clear there is much more to be done.

THE SOVIET UNION IN THE GLOBAL ECONOMY: THE TIME IS NOW

In your business and mine, we have a full plate for the 1990's. With the Cold War over, economics is driving out military issues in shaping the future. The Single European Act is creating a mammoth market of 340 million people. Japan's economic might makes it a global player, with political as well as commercial responsibilities. With fast-track authority passed by the Congress, we're looking toward free trade with Mexico and success in the GATT talks. And there is nothing so frustrating to all of us than those U.S. budget and trade deficits.

In my judgment, there's something even more significant for the world of the year 2000: the future of the Soviet Union. Today's efforts to remake that country rank with the greatest tasks of human history. Whether political and economic reform succeeds or fails will inescapably impact upon our lives.

For half a decade, we've watched in wonder as Mikhail Gorbachev has torn apart the old system. In Central Europe, the Soviets have given up everything they won in World War II. They stood by while the United States defeated Iraq, a former Soviet client state. They are letting the United Nations operate the way it was designed.

At home, Soviet leaders are admitting that communism has no answers—in fact, that it never did have them. Gorbachev has sanctioned more free debate than the Soviet peoples have ever known. Nationalism has become the most potent political force. As a result, the shape of the Soviet Union will be radically altered—if it survives at all.

The Soviet economy commands no respect, and it's heading for chapter 11. Production fell 10 percent in the first quarter. Inflation is surging at 20 percent a month. The black market sets the ruble's value at 25 times the official rate. The financing requirements to service foreign debt are estimated at more than \$20 billion this year.

Who in the West says any longer that this doesn't matter to us? Economic collapse would mean millions of refugees flooding West—an invasion of unarmed Russians and other ethnic groups beyond the competence of NATO to contain. Political collapse could face us with a country in civil war that has 30,000 nuclear weapons.

A man on a white horse could exploit the darker, aggressive forces of the Russian past, from anti-Semitism to imperial nationalism. It might take years before Soviet failure were again translated into a direct military threat. But we can't rest comfortably if 290 million people become increasingly desperate and embittered. We can't stand at the bar of history and say it was none of our business.

Once again, we hear Lenin's famous question: "What is to be done?" But in response, we are told that there is nothing the West can do, except to keep from making matters worse.

In the final analysis, the success of reform depends utterly on the leaders and peoples of the Soviet Union and its republics. There is no substitute for home-grown efforts. Soviet citizens are now waiting for a clear direction from the top before they can make any plans. But in the West, we cannot and must not just sit back and helplessly hope for reform to happen. For most of its seven decades, the Soviet Union removed itself from its global economy; it isolated itself. Now we face the historic question whether we will keep it isolated at the very moment that it seeks to join the world.

On April 23, President Gorbachev reversed field and rejoined the reformers. He struck a deal with leaders of nine republics, including Russia's Boris Yeltsin. Suddenly, this agreement offers hope that, this time, reform can work.

What has Gorbachev done for an encore? He wants massive Western economic help and an invitation to the G-7, the Seven-Nation Economic summit in London this July.

I say let him come; and let him go home with a firm promise of major Western help—tens of billions of dollars a year—if he proves to be serious about critical reforms. These include a civil and commercial code, decentralization, private property, price reform, a convertible ruble, repatriation of profits on foreign investment.

Skeptics say this is premature, that Gorbachev has disappointed us before. They say that the term "sink hole" does not do justice to the folly of helping the Soviets. That may, once again, prove to be true. But we must say that the stakes for everyone are too high—stakes that have no rival in our generation. We in the West cannot afford to bet on failure.

The new agreement between the West and the Soviet Union should include a massive influx of capital and credits—for the United States, far more than the \$1 billion in agriculture credits it extended last year. The European Bank for Reconstruction and Development should be greatly expanded, and a reforming Soviet Union should be made a full partner.

But if we've learned one thing, it's that governments can't do the job alone. As business and financial leaders, we also must act. Soviet salvation lies in a free market and free enterprise. And Western Free enterprise must be the major source both of ideas and of foreign capital. If we do not do it, it will not be done.

Let's start with the basics: ideas, capital, and trade.

First, the Soviets need both ideas and training: how to run a company and a market economy; how to set up a banking system and a Federal Reserve; how to create the institutions of a free economy without which they can do nothing.

This means ideas flowing from here to there. It means training people in corporations, in labor unions, in banks, and on Wall Street. We need a new Fulbright program, with tens of millions of dollars on both public and private money. There is nothing Americans like better than sharing their knowledge about how to make things work.

Second, ideas will not work unless there is capital. The corporate community, here and in Europe, must take the lead. Yes, that's risk capital—but potentially a big payoff. Given the political stakes, government must share that risk. Both OPIC and Ex-Im Bank need a major infusion of funds, targeted to joint ventures in the Soviet Union and Eastern Europe.

Capital also means technology, the ability to put the Soviet economy on a modern footing. Last week, the COCOM states agreed to chop in half the list of technologies banned for export to the Soviet Union. As reforms take hold, that list should be chopped even further.

In the private sector, we also need to share information among ourselves. If the Commerce Department can't pull together our collective knowledge about doing business in the Soviet Union, let us do it, through the International Chamber, the Business Council, and this Institute.

The Heinz Company is involved. We've just signed a joint venture agreement with the Russian government to produce baby food. And that's just the beginning. We're betting on the future of the Soviet peoples, whether in one union or 15 sovereign republics. We will play our part in producing the products and in getting them to market. We are supporting an initiative by private enterprise to distribute branded U.S. food products in the Soviet Union. The attraction of this initiative is that un-

like the current situation with more fungible commodity food items, inventory and price control in the Soviet Union will be greatly facilitated through brand identification. That's food on the table of the Soviet family, at a stable price.

Third, if the Soviet Union is to develop at home, it has to be able to trade abroad. Like the East European countries, it will get nowhere if barriers to exports are set high and kept high. The European Community and Japan have major responsibilities. But so does the United States. The Soviets have finally passed a law to liberalize immigration which should be implemented promptly. Now is the time to lower U.S. trade barriers, both formal and informal.

President Bush has bravely defended MFN status for China and by the same token, the continued waiver of Jackson-Vanik is justifiable. It is time to expand the credits available to the Soviet Union to help finance trade with the U.S. Indeed, the best way for it to regain its reputation for being creditworthy is to combine economic reform with access to the global marketplace.

Let me end with one example: that MacDonald's restaurant a few blocks from the Kremlin. I don't know any economist who takes it seriously. It loses money on every Big Mac. But MacDonald's is doing two other things. It produces everything "on the economy"—proving the possible in the Soviet Union, right down to the smile. And it's creating loyalties that will sell a billion Big Macs a year sometime after the year 2000.

We call that gamble free enterprise, and it's what winning the Cold War was all about.

Thank you.

1. TECHNICAL ASSISTANCE FOR ECONOMIC REFORM

At the meeting of the European Council in Rome in December 1990, the European Community and its Member States decided to support the Soviet authorities in their efforts to bring about the reform and recovery of the Soviet economy. On the basis of the Commission's assessment of the economic situation and reform process in the USSR (European Economy. Report N 45 of December 1990) the European Council decided that this support should be provided through technical assistance in five sectors: management training in the public and private sectors, financial services, energy, transport and food distribution.

Community assistance in each sector will cover policy making (price deregulation, privatisation, etc.), the design of a suitable legal and administrative framework, training, the reorganisation of existing institutions and the setting-up of new ones.

In selecting actions to be financed, priority will be given to Soviet operators (private and public) whose projects promote the Soviet economy's transition towards a market system.

The programme of technical co-operation will be implemented on a decentralised basis. The end recipients of Community assistance will be closely involved in the appraisal and execution of projects.

The Commission and the Soviet authorities will strive for balance between the republics, while giving priority to integrated programmes requiring a degree of geographical concentration. These will be pilot operations which can be copied later in other regions.

2. IMPLEMENTATION

In the Soviet Union, the day-to-day running of the technical assistance programme is to be entrusted to an ad-hoc coordinating unit (CU). This C.U., staffed by officials and experts on secondment from a number of ministries, and organisations, will be outside existing administrative structures.

The Commission will put several leading European consultants at the disposal of the C.U. to assist in drawing up financial applications, evaluating projects and running implementing mechanisms.

The C.U. will perform the following tasks:

—Inform potential recipients, throughout the country, of the aims of the programme and the terms of access to community funding. It will be assisted in this by the EC Commission delegation to the USSR.

—Receive and examine all financing applications. The C.U. will select applications in the light of the opinions of an interministerial board, when assessing the value of larger projects. The republics are to be invited to participate in this board, so that their views may be expressed and taken into consideration. The relevant technical ministries will be consulted when assessing a project's technical merits.

—Pass on to the Commission copies of all financing applications and official financing requests signed by the Soviet coordinating authority.

—Participate in the execution of projects: the drafting of tender dossiers, the assessment of tenders, and the monitoring of their execution.

The C.U. will be responsible to the coordinating authority, who will be the Commission's official partner.

The technical assistance programme will be managed within the Commission by the Directorate-General for External Relations, under the authority of the Chairman of the EC-URSS Joint Committee.

3. TRAINING

1. Management training

General objectives.—The modernisation of the Soviet economy requires managers in the public and private sector, able to implement the necessary economic reform. Understanding of market mechanisms by enterprise managers and economic administrators is essential for the success of economic reforms. The management training programme will have the following objectives:

Improving management training institutions: i.e. extending management training programmes at business schools; updating curricula and instruction modules; promoting the use of contemporary teaching material adapted to the requirements of the Soviet Union.

Developing the capability of individual managers: i.e. improving their understanding of basic managerial concepts such as marketing and finance and developing their skills in these areas; broadening their view of the role of general management; developing capabilities related to enterprise restructuring and strategic repositioning.

Sectoral priorities.—Restructuring. The management training programme will facilitate the restructuring of enterprises following changes in market conditions, *Inter alia* in the defence industries under conversion.

Filling the supply gap to ensure the availability of a sufficient number of management trainers. Certain schools should be identified as centres of excellence and supported.

Developing links between key schools in the Soviet Union and the Community.

Upgrading curricula, teaching, consultancy and research capabilities of staff in Soviet management schools.

Within these priorities the management training programme will support projects in the areas of institution building, training of trainers, entrepreneurial, and small business development, enterprise restructuring and research in areas relevant to the transformation of the Soviet Union and management education.

Attention will be paid to training and consulting activities in the field of foreign economic relations.

2. *Statistical and economic assistance.*—The reorganisation and recovery of the Soviet economy calls for a radical change in thinking and in the instruments of information gathering, analysis and economic policy.

Technical assistance in statistics, economic research and policy-making will help increase the capacity to analyse and evaluate official policies and the flow of economic information to firms and the general public. Under consideration are operations to foster economic and social research, economic information and forecasting. Other operations will focus on the management of an economic and monetary union in a market environment.

3. *Customs.*—Community assistance could focus on the following areas: drafting new customs legislation and training customs officers; technical assistance for setting up a customs training school, the reorganisation of customs offices, the computerisation of customs procedures, setting up chemical laboratories and fighting fraud.

4. ENERGY

General objectives.—Technical cooperation in the energy field should be in keeping with the general framework of cooperation which the European Energy Charter intends to promote. This aims to make clear the complementarity between the owners of resources and the holders of advanced technology, know-how and consumer markets and to develop an awareness of their mutual responsibility in face of problems of supply and the environment.

Technical assistance is of major importance to reinforce the compatibility between energy networks and legal systems.

Technical assistance should be a catalyst for increased investment. A high priority should be given to assistance with the development of a legal and regulatory framework which will be attractive to foreign investors.

Sectoral priorities.—Against this background, and taking into account the conclusions of the European Council that the technical assistance programme should give priority to nuclear safety, energy saving, systems for the transmission of electricity, gas and oil, and to associated administrative and legal frameworks, the following sectoral priorities have been identified.

a. A high priority should be accorded to the improvement of *nuclear safety*. There is a fundamental need in the USSR to improve the nuclear regulatory function in order to raise safety standards and to restore public confidence in nuclear power. A further priority for action in this area is improvement of the operating safety of existing nuclear power plants. A third area for action in the nuclear sector is an examination of the scope for cooperation in passive security systems for nuclear power plants and the design of the next generation of nuclear power plants.

b. According to the Soviet authorities, the potential for *energy saving* in the USSR is as much as one-third of current energy usage, which is consistent with Western estimates that the industrial sector could reduce its energy needs by up to 40 per cent. Short-term solutions with a good chance of success can be identified. But the long-term solution to this problem lies in the adoption of prices which are more closely related to the real costs of production and supply and to the demand for specific energy carriers as well as in introducing energy saving technology.

c. It is desirable to prepare a *vade-mecum* for foreign investors which would allow them to take stock of the current legal situation in the different regions and would suggest, if necessary, various legislative changes which could be introduced.

This document should be completed by a precise economic study of the current situation in order to better defer to the priorities for action and help investors in their decision taking.

Finally, a study should examine Soviet capacities in production, transport and distribution for each of the energy sources. This would allow a clarification of the strengths and weaknesses of the industrial system. On this basis, the studies should give a concept for cooperation between the EC and the USSR in the energy field.

d. Elsewhere in the *electricity sector*, the scope for the refurbishment of fossil-fired power stations needs to be evaluated. Another requirement is for a study of the ways in which the quality and reliability of supply within the Soviet Union might be improved. With regard to the Soviet Union's interest in exporting electricity to Western Europe as a means of financing investment in the sector, the first priority is a technical study of the requirements for inter-connection of the Soviet and European high-voltage grids. A study should also be conducted into the future market for Soviet electricity in Western Europe.

e. In the *oil and gas sector*, the Tyumen region among others requires a case study of the means to restore production levels through the application of methods and technologies developed in market-oriented countries. A second priority is a study of the Soviet Union's gas transmission system, including its state of repair and the potential for increasing its capacity through the installation of new compressor equipment and other improvements. There is also a need for a study of the potential for increased sales of Soviet gas to Western Europe as a means of financing Western investment in the system.

f. Carrying out legal, economic and technological studies.

5. FINANCIAL SERVICES

General objectives.—For several decades, the bulk of the economic functions which in market economies are performed by the financial sector has in the Soviet Union been carried out by central planning authorities. The prime functions of financial services in a market economy, such as the coordination of independent saving and investment decisions, the provision of a market for property rights and organisational performance (stock exchanges), the bridging of the gap between production expenses and sales revenues, and the provision of insurance to private agents, were either irrelevant or assigned to the state organs. Significant changes have already occurred in the organisation of the financial sector. Although this process of progressive change has not yet led to a satisfactory structure, these developments have shown the need for on-the-spot training for financial agents. They also provide the basis for a more far-reaching change in the structure and the performance of the financial sector.

The creation of a market-oriented financial sector remains nevertheless a huge task. It raises difficult issues of reform strategy, which concern both the design of the system (since developed market economies do not provide a single model for the organisation of the financial system) and the sequencing of reform measures with respect to the pace of macroeconomic stabilization and microeconomic liberalization in the real economy, as well as to the sequence of financial reforms. The main ob-

jective of technical assistance in this sector is to assist in the creation of a modern financial sector to promote change towards a market economy in other sectors.

Sectoral priorities.—Technical assistance in the financial services sector will be concentrated in the following priority areas: the Central Bank; commercial banks, financial markets; insurance and pilot projects. It will take the following forms:

—assistance for reform (evaluation of reform policies, identification of measures to be taken in the various subsectors, development of a legal, and regulatory framework);

—support for training specialists in the different financial professions, including accounting and audit specialists;

—backing for projects selected for their strategic nature or their value as models.

These three forms of technical assistance will be combined as necessary in each of the following subsectors:

(a) Central bank.—Advice on setting up the functions of a central bank in the context of a two-tier banking system in the areas of financial and monetary statistics, the conduct of monetary policy, banking regulation, the distribution of powers between the central bank of the Union and its republican counterparts, payments systems.

(b) Commercial banks.—The dearth of accounting and financial data and of specialists in business accounting, credit and financing makes the improvement of accounting information and training in this sector a priority. A closer analysis of the needs will be based on the outcome of a sectoral audit. Feasibility studies connected with the setting-up of new specialised financial institutions may also be eligible for funding: the establishment of an export development bank is one example of this.

(c) Financial markets.—Measures to develop the financial markets and privatisation.

(d) Insurance.—The drafting and evaluation of reforms, based on a sectoral audit, which would allow the identification of operations which might subsequently attract Community funding.

Attention should be given to particular development of the insurance sector appropriate for an economy undergoing economic reform and transition.

(e) Projects of local interest.—Local or regional projects might include the financing of housing, the restructuring of firms for privatisation or the establishment of economic development areas.

6. TRANSPORT

General objectives.—Priority should be given to actions which will enable Soviet operators to make more efficient use of their own resources and encourage public and private sector organisations in the West to finance subsequent operations.

Sectoral priorities.—The priority traditionally given in the USSR to railway transport is largely justified by climatic and geographical conditions which make transport by road or river difficult over long distances. But the utilisation of the railways has reached world record levels and would therefore be difficult to increase further. The development of road transport and multimodal traffic systems could be of considerable assistance to the railways; furthermore, by setting up coordination arrangements among the different means of transport according to needs, possibilities and regional conditions, technical assistance could make an important contribution to the efficiency of transport generally.

Technical assistance in the transport sector could include the following elements:

a. Methods to overcome bottlenecks, particularly those hampering Soviet imports and exports, such as the transshipment points of Brest, Chop and Odessa, or affecting distribution in a major city, Moscow for example (storage procedures, the organisation of handling and the supply of equipment on a pilot project basis); the improvement of airport facilities and air traffic safety.

b. The improvement of existing transport sources: better servicing of lorries and handling gear, increased supply of spare parts, basic computerisation of stock and warehouse management. The expansion of road haulage through the setting-up of small private firms would be useful, since it would relieve the railways.

c. Leningrad could be a focal point which would serve as a model for subsequent operations. As a port, Leningrad is multimodal by definition; at present it is not only a bottleneck, since its port is completely overloaded, but also a city open to the outside world with an industrial hinterland in which it is hoped that private enterprise will develop.

d. The development of multimodal transport. The successive or simultaneous use of different modes of transport is underdeveloped in the USSR. One of the main reasons for this is organizational: certain modes are run at Union level (air transport, railways and shipping), others at republic level. The lack of a coordinating body

hinders the development of multimodal transport and transport by road or inland waterway.

Technical assistance could also foster the development in the Soviet Union of a network of forwarding agents, which would stimulate through competition the rational choice of modes of transport.

e. Attracting private investment and outside financing.

f. Assistance in research and training in areas such as transport legislation, the technical commercial and legislative measures concerning inter alia rivers and inland waterways, the optimum make-up of a fleet of lorries, management training, training for trainers, training of officials of the transport authorities, managers likely to run private firms and air traffic controllers.

7. FOOD DISTRIBUTION

General situation.—The distribution system, which includes ordering, transport, transformation, wholesale and retail trade, together with the system of agricultural production itself, is a key factor in the supply of foodstuffs. Material and technical deficiencies are the cause of major losses between the producer and final consumers. Reorganisation must be considered in the context of the system as a whole, which has not yet made the transition towards a market economy.

General objectives.—a. The establishment of a methodology for the selection and optimal sequencing of measures for the improvement of the foodstuffs distribution systems in the various regions and for different products;

b. the identification and coordination of integrated projects which could also be applied in other regions and to other products

c. the training of Soviet teams able to carry on these actions by themselves.

Priority sectors.—The following products have been chosen for their prominence and the seriousness of problems affecting their distribution:

—fruit, vegetables and other perishable foodstuffs,

—milk, dairy products and meat,

—bread and bakery goods.

The following are the main proposed areas for action, bearing in mind the quickly evolving situation in the food sector:

a. The direct chain of supply to the major cities from the surrounding regions. This will involve the provision of advice and training for producers, wholesalers, retailers and distributors.

b. A chain of shops integrated with an industrial combine.

c. The distribution of bakery products in a large city.

d. The chain of supply of fruit and vegetables from the outlying regions to the major conurbations.

e. Mass catering.

Experts could also help draft plans for supplying a major city and assist the privatisation agencies in Moscow and Leningrad to prepare the legal and operational frameworks for the privatisation of retail outlets. Other forms of training, including "twinning", could be developed in this sector.

8. RESERVE

A reserve will be set aside to finance, inter alia, studies in sectors where cooperation between the EC and the USSR has already started. Among these sectors are telecommunications, the environment and science and technology. In addition, information activities will be undertaken in the USSR. Finally, a modest sum will be put at the disposal of the EC Commission Delegation to the USSR for flexible use in small-scale, urgent operations.

PREPARED STATEMENT OF MICHAEL H. KARL, INTERNATIONAL BUSINESS DEVELOPMENT, BURLINGTON NORTHERN RAILROAD

Mr. Chairman, my name is Michael Karl, Vice-President and Managing Director of International Business Development, Burlington Northern Railroad. We at BN appreciate the opportunity to appear before you today and thank the Committee for its timely interest in this subject.

The Committee has asked me to address whether, in light of the political and economic turmoil the Soviet Union is currently experiencing, opportunities for trade exist that can be pursued by American companies seeking to establish a presence in the Soviet Union.

The answer to your question is yes, opportunities for trade exist. But the Committee is correct to couch its question in terms of Soviet turmoil and difficulties. It is not just internal political and economic turmoil, the break-down of political and eco-

conomic institutions, either. There are questions of business culture, including the lack of understanding of capital investment and of market mechanisms. Then of course there is the biggest question of all, compensation.

Still, opportunities for trade do exist. The USSR is a huge country, with a large, well-educated population and tremendous natural resources. The need for Mexican equipment, services, goods and know-how is great.

I will not pretend that I can speak for all of American business. I can only testify to my own experience, as a representative of a large corporation engaged in providing transportation services. As I see it, the primary task for American business at this time is to identify or generate from among all the opportunities particular projects that make strategic corporate sense.

A description of our recent experience in the Soviet Union may be the best means of explaining what I mean. The Burlington Northern's involvement with perestroika really had its origin back in the fall of 1989 when Ambassador Oubinin, who was then the Soviet Ambassador to the United States, asked the Burlington Northern whether we could offer any advice regarding the transportation of agricultural products in the Soviet Union. We agreed to investigate current grain transportation practices in the USSR and to provide a report to the Ambassador.

We started travelling regularly to the Soviet Union, initially as guests of the Ministry of Railways. By September of 1990 we were invited by the Soviet Academy of Sciences to be the American side of a Joint Soviet-American Grain Handling And Transportation Study Group, whose goal was to put forward proposals for improvement of the Soviet grain use and logistics system.

We saw first-hand that waste was endemic to the existing transportation system. Despite the best efforts, and excellent performance, of individual ministries, for example, the Ministry of Railways, the *system* did not allow efficient transportation. Absolutely crucial infrastructure was lacking. To illustrate: most grain vessels arriving at Soviet ports are unloaded directly from sea-going vessel to railcar. Any delay in the arrival of either vessels or rail cars leads to waste. It is estimated that in 1989 the Soviets paid hard currency demurrage of at least \$30,000,000 for idle grain vessels—a direct result of this practice. The need to provide port-side storage facilities, to provide a buffer against delay in either grain ship or rail car arrival, is obvious.

Similarly, there is a critical shortage of country elevators in USSR grain growing regions. Any problem in the delivery of rail cars, which again might not be the Railway Ministry's fault, leads to loss and waste in the field.

As members of the Joint Soviet-American Study Team Burlington Northern inspected transportation infrastructure facilities and operations in such cities and ports as Vladivostok, Nakhodka, Port Vostochny, Irkutsk, Novosibirsk, Moscow, Odessa, Ilichevsk, Leningrad, Tallinn and Riga. We traced movement of grain and agricultural products from points of origin through points of destination. Burlington Northern visited flour and feed mills and animal husbandry facilities across the USSR. We discussed face-to-face the problems and concerns of Soviet end users of grain.

It became clear to us that the key problem with the Soviet transportation system was not shortcomings of discrete ministries, but absence of overall coordination, system-wide failure to consider the ultimate economic consequences of particular activities. In a word, there was absence of responsibility. No one was responsible for getting quality goods efficiently and reliably to end users. The focus of the Joint Study Group shifted from exploration of questions associated with providing grain and meat products to the population, to consideration of how to address those problems.

One aspect of Burlington Northern's business is the movement of grain. We've gotten good at this, thanks to competition, and our experiences are more or less directly applicable to the Soviet Union. But our means of handling and transporting grain is not secret; indeed, we have shared it openly with the Soviets. There is no significant business opportunity for us in transferring this technology to the Soviets.

That is where the issue of project identification or generation arose. We identified concrete business opportunity not in the purely technical aspects of transportation, but in the broader question of providing the populace quality food derived from grain, reliably and cost-effectively.

The Burlington Northern is now working closely with government authorities, at the USSR, RSFSR and local levels, on a project to make Eastern Siberia and the Soviet Far East (representing a population of some 15,000,000 people) self-sufficient in the production of poultry, red meats and dairy products. Our project is based on economic analysis, in close cooperation with Soviet economists and research institutes, of the efficiencies associated with alternative means of meeting the nutritional needs and desires of the population of eastern Russia. (Assuming dietary require-

ments of 800 kg of food and feed grain per year, we estimate that population will consume approximately 12,000,000 tons of those grains per year).

We have concluded, and the Soviets agree, that the most efficient means of feeding the population in Eastern Russia will require reorientation of grain and protein movements into and within the USSR. The Soviets should stop moving grain and meat by rail from the Ukraine and European Russia to the eastern parts of the country. The pure transportation expense of moving vast quantities of food over the Trans-Siberian Mainline is enormous. In addition to out-of-pocket transportation costs, there are tremendous opportunity costs. The Trans-Siberian's limited capacity, already fully exploited, could better be used moving other freight; rolling stock could be better used furnishing fresh food to population centers in European USSR. Finally, it should come as no surprise that food gets out of condition logging thousands miles en route to the Soviet Far East.

What the Soviets should do is purchase grain on the world market, for delivery to ports in the Soviet Far East, and then raise the animals necessary to meet their dietary needs. But there is no reason to stop there: the Japanese and Koreans are rich markets with a growing demand for quality meats. They can serve as hard currency generators to allow self-financing of this food production cycle.

Accordingly, we are actively exploring opportunities for export of meats from Soviet Far East to Pacific Rim markets. Our Russian colleagues understand the need to make this program, once initiated, perpetually self-financing. Transportation economics clearly favor raising animals in the Soviet Far East for sale to those markets.

What is the Burlington Northern Railroad's interest in this project? American grain, grown in Nebraska and the midwest and then shipped to the Soviet Far East off the Pacific Northwest coast will, on a delivered (CIF) basis, be competitive with grain available to the Soviets from virtually anywhere else in the world. We at Burlington Northern are working to create the opportunity to compete for transportation of domestic grain to Pacific Northwest ports. We know that market and we know how to compete. All we want is the opportunity.

We are taking the long-term view. Our goal is to create a reliable new demand for American grain. We envision our project taking place in two phases.

Phase One will emphasize delivery and maintenance of proper animal feeds and feed components, delivery and maintenance of spare parts inventories and equipment to assure efficient use of existing flour and prepared feed mills, introduction of dietary and other experts to increase productivity of animal husbandry operations. It will involve infrastructure improvements at ports and interior redistribution points of whole grains and animal feeds to increase system capacity and reduce transportation waste.

Phase Two will emphasize *expansion* of the food products base in Eastern Russia through construction of state-of-the-art feed and flour mills, expansion of dairy product, poultry and red meat operations, and expansion of associated processing and storage (including cold storage) facilities. The goal is to provide the populace in Eastern Russia, tens of millions of people, with all the dairy products, poultry and red meats they require, and to provide export capacity to meet demand in markets in the Pacific Rim.

Realization of our project represents a tremendous opportunity for American grain farmers in states like Nebraska and other agricultural producers throughout the mid-west. It represents real opportunity for American businessmen engaged in the whole range of activities necessary to support proper use of American farm products: from construction and operation of port elevators, storage facilities, and other port infrastructure to construction and operation of feed mills, animal husbandry and meat processing enterprises. This is a concrete opportunity for Americans to sell commodities, materials, technology and know-how to buyers interested in establishing long-term, mutually-beneficial commercial relationships.

We believe our project can and will work. We intend to start with a small, workable pilot project, and then to expand. And we have the support of relevant authorities, from the local (territorial) to the Union (USSR) level.

I recently signed a Memorandum with Russian Government authorities (the RSFSR Agro-Industrial Committee and the RSFSR Ministry of Grain Products) regarding concrete steps we and the Russians can take toward realization of this project. I am the American participant in a three-person working group that will invite potential investors to a conference in Vladivostok in late September, to discuss direct investment in this project. On the basis of that conference my working group is charged with establishing the investment pre-conditions for this project, from possible tax concessions and import-export privileges through assurance of long-term grain contracts. We are then to prepare a draft decree, incorporating requirements, for the signature of the Mr. Silayev, Prime Minister of RSFSR.

Further, we have been assured by Mr. Ivlev of the Soviet grain purchasing organization Exportkhleb that already in the coming months grain will be ordered off the Pacific Northwest coast for delivery to the Soviet Far East.

What can the U.S. Government do to assist companies trying to do business in the face of current Soviet political and economic turmoil? In the first place, I would like to note that our conversations regarding purchase of American grain off the Pacific Northwest coast would not have been conceivable without the recent extension of additional American grain credits. In the short term, extension of grain credits will continue to be instrumental in maintaining an important market for American agricultural products. This is a market reality that ought to be treated as such. I would urge the Congress to decide when and whether to issue additional grain credits as a commercial matter, as we do with, say, Mexico, without the extraneous political links.

Additional governmental support would be helpful and much appreciated by the business community. The two phases of our project, but especially phase two, will require significant capital investment in port and transportation infrastructure. Current port infrastructure limits SFE imports to approximately 5 million tons of grain per year through the ports of Vladivostok and Nakhodka. An additional one million tons can be imported by rail from China each year. That combined capacity is far less than the potential demand in that region: The Soviet Far East could consume approximately 12 million tons of imported grain this year, and that amount will grow as movement of grain across the Trans-Siberian diminishes. We believe Port Yostochny should be developed for import of grain—with proper storage facilities, railroad infrastructure, etc. improvements are absolutely essential in order to allow the Soviets to import more American grain through the Soviet Far East.

This is a difficult period in the history of the Soviet Union. That makes doing business, despite the apparent opportunities, all the more difficult. We believe the time has come for the Congress to consider looking more positively at promoting private companies' efforts to build long-term commercial relationships with the Soviets. Our project, for example, is based on the understanding that long-term contracts for purchases of American grain will be necessary if the Soviets are to attract favorable financing for infrastructure improvements related to this project.

We believe that Congress should provide additional investment support, to jumpstart our project and others like it. The institutional mechanism might be expansion of Export-Import Bank programs or some other domestic mechanism. It might involve the World Bank or some other international program. However structured, additional support should be made available if the United States is serious about wishing to assist the Soviet Union in its transition to the market economy. In pursuing that goal, which is to all our benefit, nothing could be more important than to encourage American business to enter the Soviet Union and explore with Soviet managers how that country's economy might be integrated into the world economy.

We believe there is opportunity in the USSR for American business, even in this difficult time of Soviet political and economic transition. We are betting on it. We hope the Congress will continue to pursue and even expand trade policies that will assist that effort. Thank you.

PREPARED STATEMENT OF CLAIR GHYLIN, VICE PRESIDENT, CHEVRON U.S.A.

Mr. Chairman, thank you for the opportunity to address your Committee today on behalf of Chevron Corporation.

As you know, Chevron is an international integrated energy company active in 90 countries around the world involved in exploration and production, manufacturing, refining, petrochemicals and marine shipping.

The subject of my statement before this committee is Chevron's proposed oil development and production joint venture in the Republic of Kazakhstan, Soviet Union. My remarks will cover three main topics: (1) an overview of the Chevron-Kazakh joint venture, (2) a brief history of the negotiations leading up to the joint venture agreement, and (3) the benefits to the United States of such a venture.

I. OVERVIEW OF CHEVRON JOINT VENTURE

Mr. Chairman, as you and many members of your committee are aware, Chevron Overseas Petroleum Company, a subsidiary of Chevron Corporation, intends to enter into an oil exploration/production joint venture in Kazakhstan with an existing Soviet organization, Tengizneftegaz Production Association, which I will hereafter refer to as TNG.

The joint venture will be called Tengizchevroil and will consist of a 50/50 participating interest between the two parties, Chevron and TNG. The terms of the joint venture will be 25 years with 10 years evergreen renewals.

Chevron is a member of the American Trade Consortium (ATC) and as such this joint venture is a beneficiary of the General Trade Agreement which was entered into in 1989 between ATC and the Soviet Foreign Economic Consortium. The other members of the ATC are Archer Daniels Midlands, Johnson & Johnson, Eastman Kodak, RJR Nabisco and the Mercator Corporation. If the Chevron joint venture proceeds, Chevron will be initially committing approximately one billion dollars to the venture, making it, on an order of magnitude, greater than any other Soviet-Western joint venture to date in terms of cash exposure in the Soviet Union.

The joint venture will encompass a geographic area of some 4,000 sq. km. Initial operations, consisting of primarily appraisal development and operation of the Tengiz and Korolev oil fields, will take place near the northeast end of the Caspian Sea in the republic of Kazakhstan in Soviet Central Asia.

The Tengiz and Korolev fields were discovered in 1979 and 1986 respectively. Both fields are characterized by deep, high pressure reservoirs, thick, continuous pay zones, and crudes with high gravity and high gas and hydrogen sulfide content. Oil in place is estimated to be about 25 billion barrels, similar to Alaska's Prudhoe Bay field. The field development will of necessity be highly capital intensive due both to the difficult geology and the need for extensive surface processing facilities to remove the poisonous hydrogen sulfide gas.

Currently, TNG, the Soviet producing association, is developing the Tengiz field. 64 production wells have been drilled and some our face gathering, processing, and infrastructure facilities (roads, pipelines, railroad) have been installed. In the smaller Korolev field, only exploratory wells have so far been drilled.

The Soviets have been attempting to develop Tengiz since the early 1980's, but technical, financial, and other problems have long delayed startup. Their first crude processing unit is now complete and production finally commenced in April 1991 at about 30,000 b/d. The design and procurement on the plant and field facilities were done by a Western consortium—Lurgi/Litwin/Lavalin. (German, Finnish and French companies). The process plant construction was done by a Hungarian contractor and field facilities construction by the Soviets themselves.

As for the future, additional wells and processing units will steadily increase production to a peak of almost 800,000 b/d several years after the turn of the century.

More than crude oil, Mr. Chairman, will be produced from this joint venture project. Besides oil, the products produced from Tengiz and Korolev will be molten and granular sulfur, LPG, and natural gas. The joint venture will earn hard currency from exporting its crude oil and eventually, the other products, though initially they will be shipped into the domestic market as export facilities are not now available.

Currently, Soviet pipeline limitations prevent joint venture crude oil from being exported directly, so for the first 4-5 years, joint venture crude will be used in the Soviet Union and the joint venture will receive a like amount of crude at an export point. Later, a new pipeline will be financed and built by the Soviets, linking two existing pipelines which will then allow joint venture crude to be piped directly to the export port of Novorossiysk on the Black sea. Sulfur and LPG will be moved by the Soviet rail system into the Soviet market. Since Kazakhstan is landlocked, the cooperation of the Russian Republic will be vital to the export of crude oil (and other products) and allow the joint venture to earn hard currency.

The setting for this joint venture will be most challenging indeed. Climate in the Tengiz area is severe with temperatures in the winter as low as -40 degrees F and in the summer as high as 120 degrees F. Dust and sandstorms are common due to strong winds and the desert terrain. The land is also low and flat and is subject to occasional flooding caused by incursions of the Caspian Sea.

As this is a remote part of western Kazakhstan, the area is sparsely populated. The nearest town, Kulsary, has a growing population of 35,000; Guryev, the capital of the province, has a population of about 200,000.

This then gives you a brief overview of the joint venture project. I would now like to turn to the history of Chevron's negotiations with the Soviets.

II. HISTORY OF NEGOTIATION

To begin at the beginning, Mr. Chairman, Chevron became active in the Soviet Union in mid-1987 following an initial contact between G.M. Keller, Chevron's former chairman and James Giffen of the Mercator Corporation. As a result of this contact, Chevron explorationists reviewed upstream opportunities in the USSR and prioritized these opportunities. From December 1987 to August 1988 Chevron sent

teams of exploration and production specialists to Timan-Pechora and West Siberian areas four times to review Soviet exploration and production data. Upon review, these areas were rejected by Chevron, in August 1988, as possible investment opportunities because of unacceptable technical and economic risk. During this same period, other potential opportunities were also reviewed in Eastern Siberia and Sakhalin Island and were also rejected as basically uneconomic.

In August 1988 the Soviet Ministry of oil industry, the top central government agency in charge of petroleum exploration and production, offered Chevron a development project in the Korolev field. Following this development, Chevron exploration and production specialists visited the USSR numerous times from November 1988 to June 1990, and hosted Soviet specialists on reciprocal visits, to review the field. Eventually the Korolev field development project was rejected by Chevron in June 1990 due to substandard economics.

In June 1990 the Chevron-Soviet negotiations took a new turn. The Soviet Minister of oil industry, Mr. M.L. Filimonov, was invited to San Francisco to give the keynote speech at the American Association of Petroleum Geologists (AAPG) convention. A major paper on the Tengiz field, written with the assistance of Chevron explorationists, was presented to the meeting by three Soviets.

At the AAPG convention, Minister Filimonov was hosted by Chevron on a tour of Chevron facilities in the U.S., and during this trip, a milestone was reached when a protocol was signed which included the giant Tengiz field in the Korolev joint venture area.

A large team of Chevron upstream professionals subsequently visited Tengiz in June 1990 to study the field firsthand, as well as associated plant, facilities and infrastructure. Additional technical meetings were held in Moscow in September and in New York in October. In January-March 1991 a feasibility study was completed and general terms negotiated in March. Since that time, the approval process, required in the Soviet Union, has been underway.

III. BENEFITS TO U.S. OF CHEVRON JOINT VENTURE

Mr. Chairman, the benefits, both short and long-term to the United States of such an oil exploration/production venture are many and varied.

Of prime importance is the resultant diversity of energy supply for the West that will result from such a petroleum export project. The fact that up to 700,000 b/d of new crude production will be coming onto the market will significantly mitigate the West's dependence on crude from the politically volatile Middle East.

Secondly, the coming onstream of such a critical new source of oil production for the Soviets could delay or prevent the Soviet Union's becoming an oil importer. As you know, Mr. Chairman, Soviet oil production rates have dropped precipitously in recent years and the Soviets appear to be headed in the direction of becoming an oil importing nation for the first time in many decades. The Chevron venture could forestall that date and reduce upward pressure on the price of oil.

A third benefit of a Chevron oil development project in the Soviet Union would be the encouragement such a project would provide towards incipient Soviet moves towards a market economy. There would be a significant increase in business to business contacts which would have the effect of building long-term partnerships and the trust that goes with such relationships. All of these contacts on the private sector level would go a long way towards reducing a confrontational stance between our two nations.

Fourthly, our Joint venture, being a major oil development project and hard currency earner, would help to stabilize the Soviet and Republic economies and help provide an atmosphere conducive to peaceful political evolution.

And finally, Mr. Chairman, this project could provide seminal opportunities in terms of spin off business for other U.S. companies interested in investing in the Soviet Union.

PREPARED STATEMENT OF RICHARD R. KELLEY, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, OUTRIGGER HOTELS HAWAII

I am Dr. Richard R. Kelley, chairman and chief executive officer of Outrigger Hotels Hawaii and chairman of the Hawaii Visitors Bureau.

First, I would like to express my deep appreciation for this opportunity to present my views on a vital issue—the long delays imposed on arriving international travelers at our airports.

This has been a long-standing problem and, despite efforts to improve conditions, it is a continuing problem. It affects not only travelers from foreign countries, but those from the United States as well. In fact, all of us in the United States suffer

from this critical situation, because of the negative effect it has on our extremely important travel industry, and thus on our overall economy.

It is indeed paradoxical that we so strongly and widely urge people or other lands to come visit our great country, and then prove such inhospitable hosts when they arrive.

The general goal in processing an arriving traveler through immigration and customs inspections at our airports is one-half hour. Three-quarters of an hour is the acceptable standard. But the actual time for this process can—and normally does—stretch well beyond beyond goals and standards. One hour. Two hours. Even five hours in some circumstances.

At Miami International Airport, second behind Kennedy Airport in New York in international travelers, the customs/immigration process averages 60 to 90 minutes. At Honolulu International, the fourth busiest in international travel, two hours is typical.

The factors contributing to this problem are certainly evident. There is a need for stringent security measures, which can be time-consuming. There is a chronic shortage of Immigration and Naturalization Service inspectors. INS and Customs facilities are often inadequate or worse. Airline schedules concentrate on favorable arrival times, creating jams at inspection stations. And the steady increase in international travel and tourism continues.

Just as the causes for this ailment are apparent, so are some of the remedies. Our immigration inspectors are well-trained and dedicated, but we are asking too few of them to do too much in too little time. We need more of them. Facilities should be expanded and improved where essential. We should seek a better scheduling balance from the airlines.

We should take greater advantage of current technology to transmit data on travelers to our airports as those travelers depart from their country, and then use that data to expedite the inspect on process when they arrive a few hours later. And, instead of requiring inspection of every arriving passenger, including every member or a family, I urge the law be changed to give an inspector the option of inspecting only heads of households.

I also recommend the Accelerated Citizen Examination program be a full-time procedure, and not used only when long lines have developed. I support resuming the Citizen Bypass program, which further reduces time and effort at inspection stations.

Again, I would like to thank you for the privilege of offering my thoughts on an issue critical to all of us. I am heartened by progress now being made in alleviating the problem, and am confident all involved will continue to work together for an ultimate, ideal solution.

[Inside U.S. Trade, July 26, 1991]

DEMOCRATIC LEADERSHIP WEIGHS OPTIONS IN WAKE OF SENATE CHINA MFN VOTE

The Democratic leadership began to weigh several options this week for gaining political ground on the issue of extending most-favored nation (MFN) trade status to China even though they are virtually certain to fail to override an expected veto by President Bush of legislation approved by the Senate July 23 to condition next year's MFN extension to political and economic reforms in China.

While the bill sponsored by Senate Majority Leader George Mitchell (D-ME) imposing conditions on China's MFN renewal was approved by the Senate 55-44, the margin fell well short of the two-thirds majority required to override President Bush's expected veto. Mitchell has not yet reached a firm decision on his strategy, but one source close to Mitchell said the senator will probably push for quick action to follow up the floor vote. Meanwhile, the enormous congressional pressure on Bush to condition China's MFN status compelled him last week to spell out in a letter to Sen. Max Baucus (D-MT) how he plans to deal with congressional concerns without conditioning the MFN status. A copy of the July 19 letter and an accompanying annex on trade and economic matters are reprinted below.

Congressional and industry sources believe the Democratic leadership has two distinct options. First, Mitchell could move quickly to push his Senate bill, S. 1367, through a conference committee with H.R. 2212—the House counterpart that passed by a veto-proof margin—and move the final China conditionality bill forward quickly for the President's assured veto. Secondly, Mitchell could hold off sending his bill to conference or decide not to send it to conference in an effort to avoid being humbled again on the issue by the President's veto.

If the Democratic leadership decides to send the China bill on to the President, it will most likely decide between two strategies, sources said. First, it could try to have the bill that comes out of the conference committee stripped of all but its human rights conditions, leaving out provisions on trade, slave labor, forced abortion and arms proliferation. The advantage of this strategy is that the bill might gain votes it otherwise lost when too many conditions weighed it down and could come closer to overriding the President's veto. But sources said it is highly unlikely this strategy would gain enough additional votes to override a veto.

The second likely route would be for the bill to emerge from the conference committee loaded down with amendments found in both the House and Senate versions. The rationale behind this option, sources said, is that because Congress knows the bill will inevitably be vetoed, it would try to punish President Bush by forcing him to veto politically sensitive issues that might be used against him later, for instance in the next Presidential election.

On the Senate floor, five amendments were attached to the Mitchell bill. One Senate source pointed out that for every vote the amendments lost by adding conditions some members could not support, it gained the votes of the amendments' sponsors. An industry source interpreted the addition of amendments differently, saying that while business interests oppose attaching any conditions to China's MFN status, they were happy to see the Mitchell bill loaded down with amendments because they believed that helped the President gain more votes.

Assuming the President follows through on his veto threat for the conditionality bill, and Congress votes in an attempt to override the veto, the votes could change slightly, but Senate sources said Mitchell would have virtually no chance of gaining the 12 additional votes he needs to override a veto. Attention will be focused on the Senate veto override vote as it was this month during congressional floor votes because the House has enough votes to override the President's veto.

But the issue of whether conditions should be placed on China's MFN status will not die when the President vetoes the legislation. It is expected to emerge again next year, when Congress is again expected to vote on a Presidential recommendation to extend China's MFN status for another year. One industry source said business interests "fully expect to have to fight the battle year after year."

The White House response to Baucus, who along with 14 other senators originally pressed Bush to pledge to commit to taking stiff measures against China other than MFN denial, included attachments on human rights, non-proliferation matters, and trade and economic issues.

WHITE HOUSE LETTER ON CHINA MFN

THE WHITE HOUSE,
WASHINGTON,
July 19, 1991.

DEAR SENATOR BAUCUS: I appreciated receiving your views on the importance of renewing China's most-favored-nation (MFN) trade status while also seeking to achieve progress with the Chinese on issues of vital concern to the American people. We clearly share the same goals. We want to see China return to the path of reform, show greater respect for human rights, adhere to international norms on weapons sales, and practice fair trade. China should contribute to international stability and not detract from it.

You rightly note that withdrawing MFN would hurt not only Americans but also the people of Hong Kong and the millions in China who are working for progressive change. Continuing MFN is essential to protect American consumers and exporters, and to support the economic forces that have been driving reform in China for more than a decade. It is no accident that the process of reform accelerated with the increase in foreign businesses operating in that nation. Those who would end political and economic reform in China have the most to gain if MFN were withdrawn. It is the economic forces pressing for the loosening of state control and increased personal freedom that would suffer the most. Other losers would be the thousands of American workers and farmers who together produced in 1990 almost \$5 billion in exports to China.

Since we started the process of normalizing contracts with China in the 1970s, there has been strong bipartisan support for the U.S.-China relationship. Building on the three U.S.A. communiqués, U.S. interaction with the government and people of China has produced demonstrable progress. That interaction must continue despite the recent severe setbacks. Nevertheless, I support the view that strong measures are needed to address our concerns in China and have not hesitated to use them in a targeted fashion. To underscore our deep dismay about human rights vio-

lations, I have kept in place a number of sanctions since the Tiananmen Square crackdown which have affected arms sales, high-level contacts, U.S. economic programs and U.S. support for multilateral development bank lending to China.

The U.S. is currently the only nation maintaining its Tiananmen sanctions and refusing to normalize relations until China makes substantial progress on human rights. For example, while all our allies and other World Bank members have supported virtually all of the last sixteen World Bank loans to China, we have declined to support seven because the loan would not serve basic human needs.

At the London Summit, we raised China's human rights practices with our G-7 allies and encouraged them to continue to stress to China's leaders, as we have repeatedly, the importance that democratic governments attach to human rights. We made clear that the U.S. will continue its policy of supporting only those multilateral development loans for China that serve basic human needs (BHN), and our view that any non-BHN lending to China help to promote market-oriented economic reform.

To advance our nonproliferation objectives, I recently authorized a number of steps aimed at engaging the Chinese on their weapons transfer policies and making clear our dissatisfaction with transfers that contribute to regional instability. The Under Secretary of State for International Security Affairs recently traveled to Beijing for a detailed discussion of nonproliferation issues, including our specific concerns about Chinese exports. He pressed for China's adherence to the Nuclear Nonproliferation Treaty and the Missile Technology Control Regime, actions I called for in my commencement speech at Yale University on May 27. We are pleased with the constructive role China played in the July 8-9 Middle East arms control talks in Paris. The Chinese endorsed all the key objectives of my Middle East arms control initiative (such as efforts to freeze and ultimately eliminate surface-to-surface missiles and block the production and acquisition of nuclear usable material). The Chinese also agreed to work rapidly in follow-on meetings to flesh out the broad agreements reached in Paris.

At the same time, I have also taken measures to emphasize to China that the U.S. is concerned about reports of destabilizing missile-related transfers. In April, I rejected requests for licenses to export satellite components for a Chinese communications project because of the involvement of Chinese companies in unacceptable missile equipment transfers. Just recently, I approved trade sanctions against two Chinese companies for that same reason. In addition, I directed that no further licenses of high-speed computers and no further exports of satellites to China be authorized until our concerns that China adhere to accepted international nonproliferation standards are satisfactorily addressed. The U.S. will be coordinating with other countries in order that these measures not be undercut. Our experience has demonstrated that such consultations will lead to effective, multilateral technology transfer restrictions.

I have also instructed U.S. agencies to press vigorously our concerns about Chinese unfair trading practices. In April, I directed the U.S. Trade Representative to identify China as a priority foreign country under the Special 301 provisions of the Trade Act for failing to protect U.S. intellectual property rights. If China does not make real progress during the 301 investigation, trade action will follow. Beyond intellectual property protection, my Administration has invited senior Chinese trade officials to Washington in August for continuation of consultations begun in June regarding access for U.S. products to the Chinese market. If these talks fail to produce Chinese commitments to take substantial measures to improve market access, the Administration will self-initiate further action under Section 301 of our trade laws.

We are strictly enforcing the terms of our textile agreement with China and have already made charges against China's quota because of illegal textile shipments through third countries totalling approximately \$85 million so far. Following consultations in July, we expect to make additional charges. If China does not exert effective control over these illegal shipments, we are prepared to take additional action against China.

Charges that China exports goods produced with prison labor are a matter of serious concern. The Customs Service is investigating these charges. In addition, we have obtained a firm high-level commitment to prevent the sale of prison labor products to the United States. We will continue to monitor China's behavior in this area closely and will strictly enforce relevant legislation concerning prison labor exports. In particular, I am ordering the following additional measures: The Department of State will seek to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific imports from China were produced by prison labor. Pending negotiation of this agreement, the U.S. Customs Service will deny entry to products imported from China when there is reason-

able indication that the products were made by prison labor. The denial will continue until the Chinese Government or the Chinese exporter provides credible evidence that the products were not produced by prison labor.

I am also instructing the U.S. Customs Service to identify an office to receive information on prison labor exports and establish procedures for the prompt investigation of reports of prison labor exports from interested parties. Additional customs officials will be directed to identify prison labor exports and aid in uncovering illegal textile transshipments.

Although it is not directly related to China's MFN status, I share your interest in Taiwan's accession to the GATT. As a major trading economy, Taiwan can make an important contribution to the global trade system through responsible GATT participation. The U.S. has a firm position of supporting the accession of Taiwan on terms acceptable to GATT contracting parties. The United States will begin to work actively with other contracting parties to resolve in a favorable manner the issues relating to Taiwan's GATT accession. Because China, our tenth largest trading partner, could also make an important contribution to the global trading system, I will seek to have the Chinese Government take steps on trade reform so that China's GATT application can advance and its trade practices can be brought under GATT disciplines through the Working Party formed for China in 1987. U.S. support for Taiwan's accession to GATT as a customs territory should in no way be interpreted as a departure from the long-standing policy of five administrations which acknowledges the Chinese position that there is only one China, and that Taiwan is part of China.

In sum, therefore, I am prepared to address the concerns you and your colleagues have identified, and I am doing so. But discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to American interests and would render futile pursuit of the initiatives I have outlined, which are discussed in greater detail in the attachments. Working together, I believe we will best protect America's interests by remaining engaged with China and the Chinese people.

Sincerely,

GEORGE BUSH.

P.S.—At the recently concluded G-7 Summit in London, the leaders of these Western Democracies all urged renewal of MFN.

Trade Attachment to President's China Letter

PART III: TRADE AND ECONOMIC ISSUES

The Administration is committed to achieving with China the same goals that have guided our trade policy with all other countries. We seek open markets and the opportunity for U.S. firms and their products to compete on fair and equal terms. To achieve these goals, and realize the principles of equality, mutual benefit and non-discrimination set forth in the U.S.-China Bilateral Trade Agreement, this Administration has pursued a policy of negotiation and engagement in trade issues with China. In particular, the Administration has sought to improve U.S. access to China's marketplace; to bolster Chinese protection of intellectual property; to end fraudulent practices by Chinese textile exporters under false country of origin declarations; and, to induce Beijing to undertake the economic and trade reforms required for membership in the GATT.

Reciprocal MFN tariff treatment underpins our ability to work constructively with the PRC. China's choice to restrict access to the U.S. market has enabled us to enjoy Chinese leaders under during periods of tension. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests and erode our ability to influence China's behavior on key trade issues.

The Past Period of Bilateral Trade Relations

After decades of adhering to an import-substitution strategy that focused on minimizing China's reliance on outside sources of technology and equipment, China began in the 1980's to seek outside sources of these goods. It also has increasingly drawn on foreign technology, expertise, and funds by actively encouraging joint ventures.

China's opening to the outside world has helped transform its economy, bolstering reform-oriented sectors that are not directly controlled by the central government. For example, the state sector now produces just over half of China's industrial output; in 1978, its share was 78 percent. China's dynamic private, industrial, which are privately and collectively owned, have blossomed. There are 16,500 joint-venture ventures in China, with a total contract value of \$48 billion. The impact of China's open door has been particularly pronounced in the southern and coastal provinces, where 90 percent of the foreign investment and more than three-fourths of China's trade activities are located. This region, in turn, has become the primary engine of economic reform in China largely as a result of the introduction of market concepts to Chinese employees of joint ventures and to citizens engaging in commercial exchanges with

the West. The economic autonomy fostered by this interaction contributes to increased political and even individual self-determination.

The United States has been a vital partner in this transformation. Following Congressional approval of the bilateral trade agreement, the United States and China established formal trade relations and reciprocally granted most-favored-nation (MFN) status in 1980. Since its new commercial ties have helped to channel China and to bring it into the global trading system, since the resumption of normal trade relations, U.S.-China two-way trade has increased almost 770 percent, from \$1.1 billion in 1979 to over \$20 billion last year.

- We are now China's second-largest trading partner and its largest export market.
- China is our tenth-largest trade partner, up from fifteenth in 1981.
- Over 1,300 U.S. firms have invested more than \$4 billion in China and another \$5 billion in Hong Kong related primarily to trade with the PRC.
- In 1990, the United States exported \$4.9 billion worth of goods to China, including:
 - \$749 million worth of aircraft
 - \$544 million worth of fertilizer
 - \$512 million worth of grain
 - \$311 million worth of cotton yarn and fabric
 - \$273 million worth of chemicals
 - \$154 million worth of electric machinery
 - \$128 million worth of wood and wood pulp
 - \$127 million worth of scientific instruments.

Commercial relations with the United States have exerted positive influences on China's business and economic practices since 1980. China has shifted away from total reliance on a strictly central-plan economy, shown greater tolerance for experimentation with market mechanisms to regulate its domestic economy, and decentralized and liberalized its foreign trade practices.

Continuation of China's Trade Policies

China's opening to the outside world has not been smooth. Over the past decade, attempts to accelerate the implementation of market-oriented reforms have been followed by Beijing's recent declaration of curbs, as concerns about the country's ballooning trade deficit led Beijing to step in to regain some of

the trade authority it had relinquished.

Moreover, throughout the period since the normalization of trade relations and the granting of reciprocal most-favored-nation trading status in 1980, China's use of barriers to imports has been so difficult for many U.S. exporters to gain access to the Chinese market. U.S. firms have also had difficulty securing protection for their intellectual property.

U.S. trade negotiators have long been engaged with the Chinese government, both in bilateral negotiations and in multilateral negotiations at the GATT level to remove China's application for membership. We have sought to ensure that bilateral, multilateral, and unilateral trade agreements with the principles that underlie the multilateral trade system, including intellectual property, are incorporated into the negotiations. From 1979 through 1987, Chinese authorities have been proceeding to remove obstacles to imports, to improve transparency, and in promoting the local market.

The trade barrier years

- Since 1980, Chinese trade policies and practices have become more protectionist, restricted barriers to imports have proliferated, and the trade system has become less transparent. These policies consistently contribute to a percent decline in U.S. sales to China in 1990. China was the only major foreign market for U.S. goods and services in which the exports declined in 1990.

Despite intensive bilateral negotiations with Chinese authorities since the GATT in 1987 placed China on the "priority watch list" of countries providing inadequate intellectual property protection—including three rounds of dialogue over the past five months—China has failed to live up to the commitments contained in the bilateral Memorandum of Understanding (MOU) signed in May 1987.

At the same time, other problems have developed in our bilateral trade relationship. For example, to bypass U.S. tariffs and export controls, Chinese exporters have increasingly resorted to shipping goods produced in the United States via third countries using false invoices and commercial visas. Also of concern is the fact that the apparent laxity in China's administration of visas and travel permits that would bring the country in line with the GATT's free-trade principles. China's transgression of GATT's travel over the past few years has been a serious violation of its obligations and ability to undertake the obligations that would be required of China as a contracting party to the GATT.

Since the U.S. Government has failed to fulfill its obligations under the bilateral trade relations.

In all key areas of the Administration's policy to resolve trade problems, the Administration is prepared to take action.

On market access

Beginning in the fall of 1990, the Administration resumed high-level dialogue with the Chinese, that had been suspended since June 1989, to secure Chinese actions to reverse the growing list of new protectionist measures.

In April, the Administration initiated the process to formally set in motion a series of bilateral trade negotiations. The process is designed to address market access issues. In meetings with senior Chinese officials, U.S. government officials discuss a wide range of market access barriers, including: the lack of transparency in rules and regulations; the regulation of import licensing procedures; the use of import substitution policies; the proliferation of import bans and quotas; the growth of quantitative, volume, and certification requirements; the lack of transparency in quality standards; procedures for imports; the high level of many import duties; the unnecessary use of certain preferential regulations; the uncertainties regarding government procurement and tendering regulations; and the lack of information regarding China's export development projects.

The Administration has proposed holding another round of market access negotiations in August 1991. It has proposed that the negotiations focus on market access issues. The Administration will seek to ensure that the Chinese authorities will accept the removal of which offers the most potential for securing U.S. trade policy objectives and increasing U.S. exports.

The Administration's primary objective

On April 16, 1991, USTR identified the PRC as a priority foreign country that denies adequate and effective protection of intellectual property rights. Accordingly, on May 16, 1991 USTR initiated a special Section 301 investigation on the basis of four specific areas: (1) inadequate copyright protection, (2) inadequate patent protection, (3) inadequate trademark and unfair competition protection, and (4) inadequate enforcement of trademarks. Consultations with the Chinese are ongoing. The first round of consultations under the Section 301 investigation occurred in mid-June and a second has been proposed for August.

The deadline for making a determination under Section

301 is November 16, 1991. This may be extended for seven months if China is making substantial progress in meeting its obligations under the law. The law provides that the U.S. will provide adequate and effective protection of U.S. intellectual property rights. At that time, the U.S. will determine whether the PRC is making progress and whether the PRC is making progress under Section 301 and what measures are necessary to protect U.S. intellectual property rights.

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China to include loans which were environmentally beneficial or which supported market-oriented economic reforms. Only IMF loans were considered by the World Bank Board until December 4, 1988 when the market-oriented economic reform loan for Rural Industrial Technology was approved by the Board. On November 29, 1990, the ADB approved its first loan to China since Tiananmen Square, Agricultural Bank Project, which the U.S. did not support. Despite the approval of infrastructure project loans by the World Bank and the Asian Development Bank, the U.S. has not yet indicated its willingness to support in all areas that it did not join earlier.

The GATT Negotiations

- Since China applied for GATT membership in July 1986, the United States has been a leading participant in the collective efforts of major GATT Contracting Parties to develop terms for China's GATT participation that will support the objectives of the GATT and will encourage Chinese Government policies to become, over time, more compatible with the GATT framework for world trade.
- U.S. and other major GATT contracting parties' concerns about China's ability and willingness to live up to GATT obligations, particularly since June 1989, have stalled progress in the Working Party established to consider China's application for membership in the GATT.
- The Administration intends to continue to press Beijing to undertake trade and economic reforms so that its GATT application and advance and its trade practices be brought under GATT disciplines.
- At the same time, the Administration will begin to work actively with other GATT members to resolve in a favorable manner the issues relating to Taiwan's GATT accession. U.S. support for Taiwan's accession and its customs territory would be inconsistent with GATT rules and criteria and the U.S. "one China" policy which acknowledges the Chinese position and has been affirmed by successive U.S. administrations.
- Taiwan's GATT accession would yield substantial trade and commercial benefits to the United States and to the international trade system.
- Taiwan has indicated that it is prepared to accede to the GATT as a developed economy, to bind itself virtually all its tariffs, and to join the major non-tariff measure GATT codes.

The Importance of NFN

As highlighted above, the Administration is aggressively seeking to resolve outstanding bilateral trade issues with the PRC. NFN underpins our ability to work productively with the PRC. We believe that discontinuing NFN, or attaching conditions to its renewal, would cause serious harm to our trade interests, and would render futile pursuit of the initiatives outlined above.

It would remove one leverage in market access, intellectual property, human rights, and other international cooperation. China's desire to obtain access to the U.S. market has enabled it to engage Chinese leaders in negotiations on bilateral and multilateral issues over multiple periods of time. Because China is not a GATT member and not bound by GATT trade disciplines, its efforts to leverage its many levers that enable it to engage the Chinese on trade issues.

It would hurt U.S. exporters. If the United States rescinds

China's NFN trading status, China will see only discounting NFN tariff treatment for the United States, but would likely raise purchasing billions of dollars of U.S. wheat, aircraft, machinery, office gear and medical, food and wood pulp, electronic machinery, scientific equipment, and chemicals. From U.S. exports, whose goods would be subject to lower tariffs, will be unable to exploit our exporters. Lost markets for China's exports would not easily be replaced even if NFN were rescinded at some future date.

It would harm U.S. consumers. Tariffs on the 25 most important U.S. exports from China would rise from the present average tariff rate of 8.8 percent to an average rate of 19.1 percent. These increases would mean sharply higher prices for low-cost Chinese goods. The effect on U.S. consumers would be largely borne by poorer Americans, who are primary consumers of low-cost Chinese products.

It would damage America's reputation as a reliable trade partner. Our trade competitors will not join in a complete NFN status in China. Other Chinese trade partners, especially in Asia, argue that China's NFN status be rescinded.

It would harm international organizations and efforts to bring China's NFN status into the GATT. The United States would lose the support of the GATT as a developed country. A development critical to regional stability particularly as we near the 1997 deadline for Hong Kong's reversion to Chinese sovereignty. It could cost over 40,000 jobs in Hong Kong and result in direct revenue losses of approximately \$1.2 billion in dollars. Hong Kong's GDP growth could be curtailed by as much as 10 percent.

It would set back efforts to bring about meaningful economic reforms in China. A disproportionate burden of the NFN status would fall on the primary engine of economic reform in China—the economies of the southern and coastal provinces. In Guangdong province, for example, 48 percent of industrial output is produced for export, half of which goes to the United States. Sectors that fall outside of the direct control of the central government have been especially important in China's development as an exporter: one-third of China's exports currently come from rural (individual and collectively owned) industries and from foreign-invested ventures. The foreign ties these provinces and non-state-owned factories developed with the outside world prior to Beijing's reversion of central control in mid-1989 weakened these provinces to weather the austerity program; without these foreign markets, Beijing's grip would have been all the tighter. As Beijing's influence over the regions and sectors most closely integrated into the global economy has diminished, these regions and sectors have become increasingly sensitive to China's economic condition. Revocation of China's NFN trading status would cause unemployment to rise and factory closes to mount in export-producing regions.

Conclusion

Those who engineered the violence in China in June 1989 are unlikely to hear the economic costs associated with the cancellation of NFN. Markets that were once open to American businesses and their employees, American consumers, and the people of Hong Kong and the progressive areas of China.

China's opening to the outside world over the past decade has accelerated growth in the service sectors of the economy; resulted in strong links between China's coastal, inland, and the global economy that have enabled this reformist region to weather Beijing's periodic efforts to reimpose central government control over economic activity; and introduced market concepts to generations of Chinese managers involved in joint ventures, trade cooperation, and training in the West. The process to rescind China's most-favored-nation treatment in the United States is essential.

ADMINISTRATION SEEN MOVING TO ACTIVELY SUPPORT TAIWAN'S GATT ACCESSION

The Administration will act quickly to push for Taiwan's accession to the General Agreement on Tariffs and Trade (GATT) now that the President has announced his major policy shift to actively support Taiwan's membership, sources said. The Administration will be under great congressional pressure to do so, with one Senate source promising, "We'll hold their feet to the fire."

Before the President's announcement last week, the U.S. had supported the accession of Taiwan and China to the GATT at the same time in an effort to avoid offending China by appearing to break with America's "one China" policy, sources said. U.S. support for the application will be instrumental in drumming up support among other GATT members, sources said. While other nations support Taiwan, they too have not wanted to be the first to take a stance on the issue for fear of offending China. France is the only other country to publicly support Taiwan's application, a source at the Office of the U.S. Trade Representative said.

The President announced his new position on Taiwan's GATT membership July 19 in the "action plan" on China trade issues he issued in response to a letter from Sen. Max Baucus (D-MT) and 14 other senators who pressed the President to respond to their concerns before the vote on conditioning China's most-favored nation (MFN) trade status reached the Senate floor.

The U.S. will ask the GATT to form a working party on Taiwan's GATT membership, a source close to the Taiwanese said. Asking the GATT Council to place the issue on its agenda and to form a working party is the first step toward a country's accession to the GATT, the USTR source pointed out. The working party could take anywhere from several months to some years to complete its investigation and analysis of a country's trade regime and its determination of what improvements the country must agree to make to become a GATT member. The USTR source refused to comment on whether the U.S. would ask the GATT to put Taiwan's accession on its agenda and to form a working group.

While any country could ask for the issue to be placed on the agenda, GATT Director-General Arthur Dunkel could also place Taiwan on the agenda without a request from a GATT member, according to the USTR source. The source confirmed that the issue is high on the Administration's agenda.

Baucus not only expects the Administration to ask the GATT to set up a working party on Taiwan's application, but also believes it is "critical" that the Administration lobby other GATT members to support Taiwan, a congressional source said. Because the Administration has now put its promise to support Taiwan's application in writing in the "action plan," it will be especially hard to back off from the commitment. Not only will Congress be watching the issue closely but USTR has supported Taiwan's GATT application for some time and has been frustrated that other agencies within the Administration have not been willing to take that position for fear of offending China politically, the source said.

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